AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES APPROPRIATIONS FOR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES

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AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES APPROPRIATIONS FOR 1987

FRIDAY, MARCH 21, 1986.

OFFICE OF THE SECRETARY/DEPARTMENTAL ADMINISTRATION

WITNESSES

JOHN J. FRANKE, JR., ASSISTANT SECRETARY, ADMINISTRATION
JOHN E. CARSON, DIRECTOR, OFFICE OF FINANCE AND MANAGEMENT
STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTIONS

Mr. WHITTEN. We have with us this morning Mr. John Franke, Jr., Assistant Secretary for Administration, and Mr. Carson and Mr. Dewhurst.

We appreciate your being here, and we would be glad to have you make your presentation, Mr. Franke, if you will.

Mr. FRANKE. Thank you, Mr. Chairman, and I sincerely appreciate the opportunity to come before the committee, before the Chairman. You will notice some other folks from Agriculture—and you alluded to that. Most of these people are departmental managers that very seldom get an opportunity to sit in a committee hearing.

Mr. WHITTEN. Well, I'll interrupt to say that from time to time we are critical on this side. But if we don't get the answers from you when we get to the House floor, we don't have the information we need.

But I will say here, that people in this country don't fully appreciate the great job the Department of Agriculture has done to make it possible for 2½ percent of the people on the farms to produce the food and fibers for the rest of us.

SOIL CONSERVATION PROGRAM

I have here a list of the soil conservation practices which the Department has been responsible for during the past 50 years or so. About two-thirds of that work is being paid for by the landowner, and our country would be in bad shape if we hadn't had it. I am pleased that our Committee on the Congress have supported it through the years. In the bill that we passed last night, we prohibited the new Conservation Reserve from being used to stop what you are already doing throughout the country.

It's evident to me that somebody someplace wanted to get rid of the existing conservation programs. They sent up a budget to cut them more than 50 percent, intending the new reserve program to substitute for the others. The Congress went along with going for the new program but not at the expense of the old ones.

Be glad to hear from you.

BUDGET OVERVIEW

Mr. **Franke**. Thank you, sir. We will be speaking for the Office of the Secretary, Departmental Administration, Advisory Committees, GSA Rental Payments and Building Operations, and the Working Capital Fund. We will be presenting several comments with regard to those.

I wish to point out that we certainly support the President's budget. We feel that it meets the deficit reductions required, and we are going to do our part to help achieve the reduced level of government spending necessary. The Gramm-Rudman-Hollings reductions will continue, a process that I believe we in Departmental Administration commenced earlier, and will continue, that is, increasing our managerial effectiveness.

MANAGEMENT INITIATIVES

We are the administrative-managerial side of the Department. Irrespective of how programs come out, our job is to make them the most effective, through our systems, as possible. Therefore, we should continually attempt to increase our managerial effectiveness: we should examine our workloads; we should reassess our duties and procedures; and we should realign those duties, where it makes sense from a management concept. And our management initiatives are beginning, as I mentioned last year, Mr. Chairman, and some may recall, to pay dividends. We do have a team spirit within Agriculture. Many of those automation things, many of our discussions, many of our grassroot activities that take place in agricultural systems are truly beginning to pay dividends. We can perform very effectively.

We plan to operate within the reduced levels available, both in 1986 and 1987, and yet we will continue to support the program agencies of the Department. That is the way we operate within Departmental Administration. The programs come first and systems should be flexible enough to adapt to those programs. We don't attempt to influence programs through our managerial systems.

We will look for further ways to increase our productivity. We believe that's demanded of a public official. We will foster good management practices so we can provide administrative support with fewer people—and we know we must. We know, irrespective of the approaches taken in the Balanced Budget and Emergency Deficit Control Act, and other acts that apply to us—that it's our obligation, as managers to do the most effective job we can, even if we have to alter the way we do business. Times change, certainly—and we are moving close to the 21st century. We have the opportunity, and we have the team that I believe can accomplish a great deal.

We must change the way we do business within all large departments, and we think we have done that here and are approaching change in a wise manner. Reductions in support levels will be accomplished in the least disruptive manner. We know we must maintain that communication with our work force in the field, and certainly with the farm community— that is essential.

OFFICE OF THE SECRETARY

If you would allow me just to highlight a few of our specific requests. I won't get into a great amount of detail—but our 1987 budget request for the Office of the Secretary shows a net decrease below the current estimate for the fiscal year 1986. We are asking $5.5 million, which is a decrease of $166,000 below the 1986 level.

We are asking, for administrative purposes, if we could perhaps achieve a compromise with the Congress, with the committee, in the way we present the Secretary's budget. We understand that the committee certainly wishes to know more about each of the respective offices within the Office of the Secretary, and those numbers should be available. However, from a managerial or an administrative sense, rather than have those ten offices each have a budget official and a procurement official, it would be much more effective if we could combine them for fiscal purposes into one budget that splits them out in line items. That way the information necessary for the committee could still be available, and yet we could practice some management efficiencies.

DEPARTMENTAL ADMINISTRATION

With regard to Departmental Administration, our fiscal year 1987 request is for $21,920,000. This is a net decrease of $155,000. In contant dollars it is actually more of a decrease than that from previous years. We are really operating at a great amount less than we have in three or four years more than today's dollars indicate.

ADVISORY COMMITTEES

With respect to Advisory Committees, we are asking for $1.3 million—an $8,000 increase. There is an issue that we will have to address shortly, but we do not know all the details yet. The Farm Bill has authorized several additional committees. This budget we are proposing does not take the additional committees into account. We will keep the Congress notified of the approach we will take with respect to the committees authorized in the Farm Bill.

RENTAL PAYMENTS AND BUILDING OPERATIONS

With regard to our rental payments and building operations, our fiscal year 1987 request is $76 million. And this is $7.4 million above our current 1986 budget level. Of that increase, $6.3 million represents increased payments to GSA, attributable to rate increases in certain selected geographic locations around the country. The remaining $1.1 million is additional funding we feel necessary for maintenance and repair of buildings in the D.C. Headquarters.

WORKING CAPITAL FUND

Finally, for the Working Capital Fund, one of the more complex funds that we operate, we have two points to address there. One is a capital improvements program that we requested. We just completed our second year of a four year program. We asked for about $6 million per year to allow us to purchase hardware and large equipment that would allow us to reduce excessive lease costs. We assume right now that we will achieve cost avoidances in our automation equipment, principally, our hardware, of approximately $16 million over the next four years.

Right now we are using that type of equipment, but we are paying to lease it. If we purchased the equipment—and it has a 4- or 5-year lifespan—we can avoid millions of dollars in anticipated lease costs.

CROSS SERVICING

With regard to the operating side of the Working Capital Fund, we expect savings in annual processing costs to USDA users of about $407,000. Much of this cost savings is attributable to what we call cross-servicing. This is where the Department of Agriculture, with other departments within the Federal government, having similar programs with similar systems buy services one from the other. We have been very fortunate in Agriculture through the years to develop some of our computer centers, principally the National Finance Center in New Orleans where we have developed very cost-effective administrative payment systems—payroll, personnel, things of that nature. For other large departments it's possible for them to avoid start-up and development costs and instead to buy services from us, using our systems. In return we receive payments from those departments and agencies, and therefore reduce the unit operating costs for Agriculture agencies. We feel that cross-servicing can be of enormous savings to the Federal government, certainly to the Department of Agriculture. We already have reduced the unit cost of operating our Working Capital Fund cost centers, a great deal of this by virtue of this cross-servicing.

WCF OPERATING INCREASE

Because of additional services required by Agriculture agencies, we are asking for an increase in the Working Capital Fund for the operating side of about $6 million, all of that attributable to increased workload and increased activities. What we must do in administration is now figure, in a broad sense, any operating cost increases or reductions with respect to the Working Capital Fund, cross that back over into our ability to operate under a reduced budget, and yet show a more efficient and a more effective systems operations. We feel we have a good case to do that.

CONCLUSION

It's very difficult to cover everything in the overview—I found that out as a local official, I'm finding out more and more as a Federal official—just the numbers get larger. I feel we are doing a very effective job on behalf of the Federal government, and certainly our constituency for United States agriculture.

That concludes my comments, Mr. Chairman. Certainly, as we all know, I would be more than pleased to stay as long as you desire.

[CLERK'S NOTE.—The full text of Mr. Franke's prepared statement appears on pages 228 through 234. The explanatory notes appear on pages 235 through 313.]

DEPARTMENTAL ADMINISTRATION

Mr. **WHITTEN**. Thank you very much. I notice on page 1, you say "First, we fully support the President's budget, which meets the deficit reductions required under the Balanced Budget and Emergency Deficit Control Act and will do our part to help achieve the reduced level of government spending necessary."

I wondered about that statement, but then I looked at the top of page 2-7 of your explanatory notes—you get an increase. Is that increase so that you can enforce the cuts that you are making in all these other programs?

Mr. **FRANKE**. We are looking for page 2-7 real quickly, Mr. Chairman.

SOIL CONSERVATION

Mr. **WHITTEN**. The Soil Conservation Service, they cut about 60 percent. I have here a list of the practices that have succeeded over the years in getting us out of the dust bowl days. But this new program—a whole lot of folks thought was a substitute for the tried and successful. I mentioned earlier I am mighty glad the Congress agreed with us that we will use the new program where it is needed, but not at the expense of that which has proven so good through the years, where the farmer pays two-thirds of the cost.

I also notice in the budget this year that the Office of Management and Budget wants some more money. I guess that is to enforce the cuts of the White House.

So these folks in control want more money so they can enforce the cuts on the others that are not in control. Is that the way you see it?

DEPARTMENTAL ADMINISTRATION INCREASE

Mr. **FRANKE**. Mr. Chairman, the $2-million figure that we indicate in administration is more than just a bookkeeping exercise. I can't speak for OMB or the White House, but I know within Agriculture what we attempt to do is be more and more accountable. In past years——

Mr. **WHITTEN**. Accountable to whom?

Mr. **FRANKE**. Accountable to you, to the Congress, to the President.

POLICY DECISION ANNOUNCEMENTS

Mr. **WHITTEN**. I'll tell you one of the things that bothers me—we had just as well be candid: I read in my local paper what the Department has done, yet the Members of this Committee have never been notified. It's very embarrassing from time to time. I've taken it up with Mr. Mizell. But I still read in my local paper what the Department has done although I knew nothing about it because I have never been notified. This has happened repeatedly. And it's hard to explain since I am in a key place up here and yet don't know what you're doing.

Mr. FRANKE. That's certainly not the intention of the Department, Mr. Chairman.

Mr. WHITTEN. Does that come under your supervision?

Mr. FRANKE. It would depend on the specifics.

Mr. WHITTEN. Well, I mean the announcement of policies and programs by the Department which appear in the press, and then you don't advise the Committee up here of these actions which apply to the folks back home in my district.

Mr. FRANKE. I'd certainly be glad to respond, Mr. Chairman, if I could get a specific—I'd be more than pleased to respond.

Mr. WHITTEN. I notice that last year we attempted to get our hands on what goes on for information purposes, so we put it together. We had trouble finding out who was responsible, so we put them together where we could see.

Working together is a big part of it. Now we have a new Secretary of Agriculture, a long-time friend and a very fine person. But we can't understand when we see on television and read where the Department has taken money from a project in Iowa and given it to the state of Florida to pay obligations which have been incurred but are not an emergency. We have a statute which says you can't transfer money for such purposes.

Now, when you ask for a legal opinion and get a lawyer's opinion of three pages, it makes you question whether it's very sound or not. And then we look to the facts and we find they call it an emergency when all it is is a debt that you owe. You also did that after we had introduced a bill to take care of it.

What can we do to prevent that kind of thing?

Mr. FRANKE. I have a deep and abiding respect, Mr. Chairman, for the legal profession, and, fortunately, General Counsel follows our presentation.

Mr. WHITTEN. Well, we all understand lawyers can come up with different opinions. I read a story recently by a woman lawyer who had known Mr. Darrow, who we know from history. She indicated that Mr. Darrow spent his time hurrahing the judge because any judge could give an opinion and he could find an excuse for it.

OBJECT CLASS

Mr. WHITTEN. Please provide for the record a sub-object classification for the object class, other services, for the Office of the Secretary.

[The information follows:]

OFFICE OF THE SECRETARY—OBLIGATIONS IN OBJECT CLASS 2500 (OTHER SERVICES) FY 1985, FY 1986 and FY 1987

Subobject code	Description	FY 1985 actual	FY 1986 estimate	FY 1987 estimate
2510	Contractual services performed by other Federal agencies; excluding GSA rental and FTS charges.	$109,632	$153,000	$156,000
2520	Personnel-related expenditures	35,769	50,000	51,000
2530	Repair, alteration, or maintenance of equipment or structures	107,024	149,000	152,000
2540	Contractual services other, e.g., architectural and engineering, research, commerical ADP services.	27,328	38,000	39,000
2570	Miscellaneous services, e.g., publication notices, advertising, A-76 contractual services, GSA motor pool.	6,187	9,000	9,000
2580	Fees, e.g., money order fees, bank services fees, participation fees.	345	1,000	1,000
	Total	286,285	400,000	408,000

DEPARTMENTAL ADMINISTRATION EQUIPMENT PURCHASED

Mr. Whitten. According to the explanatory notes on page 2-3 you are proposing to purchase equipment totaling $14.7 million in fiscal year 1987 through the Working Capital Fund. Please provide for the record a description of the equipment you are proposing to purchase, and explain its purpose and where it will be utilized.

[The information follows:]

WORKING CAPITAL FUND FY 1987 CAPITAL PROCUREMENTS

Office and description	Amount
Office of Governmental and Public Affairs:	
Video and film:	
Video editor package	$77,000
Audio components	4,000
Total	81,000
Office of Operations:	
Copier Service: XRX 9900 Copiers	$449,000
Mail distribution: Mailmobiles	50,000
Central supply forms: Forklift truck	25,000
Central supply stores: Forklift truck	25,000
Total	549,000
Office of Finance and Management:	
National Finance Center:	
Upgrade to front end processor	$90,000
Dual control	4,000
Personal computers	150,000
Online COM	130,000
Shared logic office system	446,000
Local area network	250,000
Sealing machine	7,000
Letter openers	8,000
Microfiche reader/printer	2,000
Digital imaging machines	30,000
Hyperchannel adapters	175,000
Large mailroom console	5,000
Small mailroom console	2,000
IBM plug compatible CPU	10,915,000

WORKING CAPITAL FUND FY 1987 CAPITAL PROCUREMENTS—Continued

Office and description	Amount
Total	12,214,000
Office of Information Resources Management (OIRM):	
Washington Computer Center: 3880/3380 disk drives and controls	$390,000
Fort Collins Computer Center:	
M03 processor	$841,000
Communication controller	95,000
PC LAN	25,000
Community server	75,000
A140 Convert A222	86,000
Satellite implementation	50,000
Total	1,172,000
Kansas City Computer Center:	
NAS 7900 semiconductor disk subsystem	$192,000
Multifunction work stations	64,000
HIS CS U8001 systems consoles	21,000
Systems furniture	25,000
Total	302,000
Total OIRM	1,864,000
Grand total	14,708,000

EMERGENCY PREPAREDNESS

Mr. WHITTEN. Please explain for the record why the emergency preparedness activities were transferred from the Office of Governmental and Public Affairs to Departmental Administration.

Mr. FRANKE. The transfer was the result of an agreement between the Assistant Secretary for Governmental and Public Affairs and me that such a transfer would be mutually advantageous.

Mr. WHITTEN. How many people are assigned directly to the emergency preparedness activities?

Mr. FRANKE. The Emergency Programs unit consists of four full-time employees and eight intermittent employees. The four full-time positions include a GM-15 Chief, GM-14 Emergency Preparedness Specialist, GS-6 Secretary, and a GS-9 Program Assistant. The eight intermittent employees' annual participation equates to one full-time employee.

Mr. WHITTEN. What is the total cost of these activities?

Mr. FRANKE. The total cost is $244,000 in both fiscal year 1986 and 1987.

Mr. WHITTEN. Are other agency personnel assigned on a temporary or ad hoc basis? If so, please identify the number and agency represented.

Mr. FRANKE. No other personnel are assigned to this activity.

OFFICE OF MANAGEMENT REFORM

Mr. WHITTEN. According to the explanatory notes, you are not requesting funds for the Office of Management Reform for fiscal year

1987. Has the organization completed its task, or is it being funded through other sources?

Mr. **Franke**. The Office of Management Reform was established as a small ad hoc office to coordinate the Administration's Reform '88 program, the President's Private Sector Survey on Cost Control recommendations, the Office of Management and Budget's management initatives, and other departmentwide management activities. Coordination of these efforts will be completed by the end of fiscal year 1986 when these initiatives will be included in the Secretary's Management Plan or institutionalized in the programs of various agencies and staffs.

OFFICE OF ADVOCACY AND ENTERPRISE

Mr. **Whitten**. Please submit for the record a copy of the most recent functional statements and staffing of the Office of Advocacy and Enterprise.

[The information follows:]

OFFICE OF THE DIRECTOR
OFFICE OF ADVOCACY AND ENTERPRISE

The Office of Advocacy and Enterprise is a consolidation of the former Office of Equal Opportunity, the Office of Small and Disadvantaged Business Utilization, Minority Research and Teaching Programs, and the newly created functions of the Competition in Contracting Act of 1984.

The Office of the Director, Office of Advocacy and Enterprise, provides the overall policy and program leadership, coordination, and direction for the Department's civil rights and equal employment opportunity programs; for the participation of minority colleges and universities in Departmental programs; for the participation of small and disadvantaged business organizations in the procurement process; and for compliance with the Competition in Contracting Act of 1984.

STAFFING

Position Title	Series/Grade
Director, Office of Advocacy and Enterprise	ES-301-05
Special Assistant to the Director	GM-301-13
Secretary	GS-318-09

MINORITY RESEARCH AND TEACHING PROGRAMS
OFFICE OF ADVOCACY AND ENTERPRISE

Provides leadership to Departmental efforts to further the participation of minority colleges and universities in Departmental programs and activities, and monitors USDA agency compliance with Departmental policy as it affects these programs and activities.

STAFFING

Position Title	Series/Grade
Associate Director, Minority Research and Teaching Programs	GM-1701-15
Program Analyst	GM-0345-14
Secretary	GS-0318-07

OFFICE OF THE ASSOCIATE DIRECTOR
EQUAL OPPORTUNITY

The Office of the Associate Director, Equal Opportunity, Office of Advocacy and Enterprise, provides overall administrative management of Civil Rights programs and functions for Equal Opportunity coordination of policy and program issues in relation to U.S. Department of Agriculture agencies and other Departments, Commissions and Agencies of the Federal Government.

STAFFING

Position Title	Series/Grade
Associate Director, Equal Opportunity	ES-360-03
Administrative Officer	GS-341-09
Management Assistant	GS-341-09
Secretary	GS-318-08

POLICY, PLANS AND EVALUATION DIVISION
EQUAL OPPORTUNITY
OFFICE OF ADVOCACY AND ENTERPRISE

1. Develops, centralizes, and coordinates all EEO policy for USDA on behalf of the Secretary.

2. Assists the Associate Director to maintain EEO policy liaison with other Federal Departments and Commissions, as well as with Agencies and Offices, external and internal to USDA, to exchange information and assure coordination of actions on EEO matters.

3. Provides policy guidance and assistance in the preparation of EEO-oriented publications and reports deemed necessary in accomplishing the mission of the Agency.

4. Develops methodologies and procedures for improved management systems, EEO programs and activities.

5. Collects, processes and evaluates Departmental EEO data.

6. Develops, implements, monitors and evaluates Civil Rights training programs and activities, as they relate to EO matters for Departmental managers and employees.

7. Develops regulations and directives for implementing the Departmental Civil Rights responsibilities, as they relate to EEO.

8. Develops activities and guidelines in order to assure proper implementation of laws, Executive Orders, rules and regulations relating to EEO.

9. Coordinates the revisions to internal and external EEO regulations and ensures that such regulations are consistent with each other and with operational procedures within program Agencies.

10. Develops, implements and coordinates affirmative action plans and procedures as well as Federal Equal Opportunity Recruitment Plans (FEORP) for the Department, and provides guidance and assistance in the development of individual Agency plans.

11. Reviews the potential adverse impact on employment of Departmental and individual Agency policy, regulations, directives, reorganization proposals, and environmental impact statements.

12. Conducts EEO program compliance reviews Department-wide.

13. Provides EEO technical advice and guidance Department-wide.

POLICY, PLANS AND EVALUATION DIVISION
EQUAL OPPORTUNITY

STAFFING

Position Title	Series/Grade
Program Analysis Officer	GM-345-15
Program Analyst (Data Base Manager)	GM-345-13
Program Analyst	GM-345-12
Program Analyst	GS-345-12
Equal Employment Opportunity Specialist	GS-260-12
Equal Employment Opportunity Specialist	GS-260-12
Program Analyst (Upward Mobility)	GS-345-07
Secretary (Typing)	GS-318-06
Clerk Typist	GS-322-04

EMPLOYMENT PROGRAMS DIVISION
EQUAL OPPORTUNITY

1. Evaluates the statistical data which reflect the levels of, and degree of diversity in, the employment of protected constituencies.

2. Provides equal employment opportunity services to managers and employees in the Departmental Staff Offices.

3. Monitors the administrative processing of equal employment opportunity complaints, and participates in their resolution for the appropriate Staff Offices.

4. Assists the appropriate Staff Offices in performing evaluations of internal equal employment opportunity programs.

5. Participates in the development and coordination of Equal Employment Opportunity (EEO) policy for USDA.

6. Develops methodologies and procedures for improved management systems, EEO programs and activities.

7. Develops, implements, monitors and evaluates civil rights training programs and activities, as they relate to equal opportunity matters for Departmental managers and employees.

8. Participates in EEO program compliance reviews.

9. Coordinates EEO conferences for the Department.

10. Provides technical advice and guidance to EEO counselors, Federal Women's Program and Hispanic Employment Manager in Departmental Staff Offices.

11. Assists the appropriate Staff Offices in performing evaluations of internal EEO programs.

12. Coordinates activities for the Department's Citizen's Advisory Committee on Equal Opportunity.

STAFFING

Position Title	Series/Grade
Supervisory Equal Employment Opportunity Specialist (Division Chief)	GM-260-14
Equal Employment Opportunity Specialist	GS-260-12
Equal Employment Opportunity Specialist	GS-260-12
Equal Employment Opportunity Specialist	GS-260-12
Equal Employment Opportunity Specialist	GS-260-12
Clerk Typist	GS-322-04
Clerk Typist	GS-322-04
Clerk Typist	GS-322-03

SPECIAL EMPHASIS PROGRAM
EQUAL OPPORTUNITY
OFFICE OF ADVOCACY AND ENTERPRISE

Special Emphasis Program, Employment Programs Division, is responsible for actions to develop and implement the Department's Federal Women's, Hispanic, Black, American Indian and Asian Affairs and the Handicapped Programs.

Program area management functions are as follows:

1. Evaluates program effectiveness through review of attainment of objectives and achievement of broad program goals.

2. Advises the Associate Director, Equal Opportunity, Office of Advocacy and Enterprise, of unique concerns and problems related to equal opportunity for Women, Hispanics, Blacks, American Indians, Asians, and the Handicapped.

3. Manages the Special Emphasis Programs' Departmental Councils.

4. Works with staffs and maintains close liaison with other Federal Departments and Agencies on Special Emphasis Program activities.

5. Analyzes the employment status of Women, Hispanics, Blacks, American Indians, Asians and the Handicapped in USDA and recommends actions to increase participation of these groups.

6. Provides policy guidance on all Special Emphasis Program areas.

7. Assists the Associate Director, Equal Opportunity, in maintaining liaison with other Federal Departments on policy directions. This includes Agencies and Offices internal and external to the Department of Agriculture.

8. Conducts studies, organizational reviews, and workforce analysis to identify systematic problems in the equal employment program areas, and problems in the area of program assistance and services.

9. Advises the Associate Director, Equal Opportunity, on Federal Personnel Systems and Administration, particularly regarding recruitment, hiring, selection, promotions, separations, terminations, awards, appraisals, labor relations, job evaluations, compensation, staffing and employment rights.

10. Develops methodologies and processes for effective program implementation.

11. Develops program area goals, objectives and workplans that will result in effective programs.

12. Develops policy guidelines to insure proper implementation of laws, Executive Orders, rules and regulations related to the Special Emphasis Programs' areas.

13. Coordinates and implements training programs and activities related to this program area.

14. Evaluates and advises the Associate Director, Equal Opportunity, on statistical data relating to constituents of these programs.

STAFFING

Position Title	Series/Grade
Equal Employment Opportunity Manager	GM-260-14
Equal Employment Opportunity Manager	GM-260-14
Equal employment Opportunity Manager	GM-260-13

COMPLIANCE PROGRAMS DIVISIONS I AND II
EQUAL OPPORTUNITY
OFFICE OF ADVOCACY AND ENTERPRISE

1. Develops basic policy and program approaches for implementing Departmental civil rights responsibilities as they relate to program delivery compliance.

2. Assures civil rights for all citizens participating in Federally assisted and direct assistance programs administered by the Department by coordinating program delivery compliance activities, including the conduct of compliance reviews of agency activities to determine whether the requirements of applicable civil rights laws, Executive Orders, and Departmental regulations and directives are fully implemented.

3. Performs compliance evaluations of civil rights programs, activities, and corrective action implementation within program agencies.

4. Collects and evaluates the statistical data which reflect the degree to which members of protected constituencies are participating in Departmental programs and activities to determine compliance review priorities.

5. Evaluates and provides assistance to the program agencies in their statistical reporting efforts regarding program participation.

6. Monitors the degree to which Departmental outreach efforts result in participation by protected constituencies in Departmental programs and activities, and recommends improvements in those outreach efforts.

7. Evaluates and provides assistance to the agencies in developing and revising their compliance review procedures.

8. Assures that complaints of discrimination against programs or activities of the Department are resolved in accordance with the requirements of applicable civil rights laws, Executive Orders, and Departmental regulations and directives.

9. Conducts and coordinates investigations pertaining to formal complaints of discrimination in the administration of Departmental programs and activities.

10. Adjudicates complaints of discrimination in program delivery.

11. Processes appeals pertaining to formal complaints of discrimination in the administration of Departmental programs.

12. Coordinates and provides compliance information to the Office of General Counsel and the Department of Justice for enforcement actions in cases where voluntary compliance cannot be achieved.

13. Assists the Associate Director in maintaining liaison with other Federal Departments and Commissions as well as Agencies and Offices, both external and internal to the Department, to exchange information and assure coordinated actions on program delivery compliance matters.

14. Develops, implements, monitors and evaluates civil rights training programs and activities, as they relate to program delivery matters, for Departmental managers and employees.

15. Coordinates the issuance of public notifications of Department-wide programs regarding the availability of USDA programs on a non-discrimination basis.

16. Reviews Agency regulations, instructions, policies, plans, procedures, systems and programs for civil rights impact.

17. Coordinates activities for handicapped persons as they relate to program delivery compliance in USDA in accordance with Section 504 of the Rehabilitation Act of 1973.

18. Provides policy guidance and assistance in the preparation of compliance-oriented publications and reports deemed necessary in accomplishing the mission of the agency.

19. Develops methodologies and procedures for improving management systems for program delivery compliance programs and activities.

20. Provides technical assistance and guidance on civil rights compliance matters to program Agencies.

21. Develops regulations and directives for implementing the Departmental civil rights responsibilities as they relate to program delivery compliance.

22. Develops activities and guidelines in order to assure proper implementation of laws, Executive Orders, rules, and regulations relating to program delivery compliance.

23. Coordinates the revisions to agency program delivery compliance regulations/instructions, and ensures that such regulations/instructions are consistent with each other, with operational procedures within program agencies, and with Departmental regulations and directives.

STAFFING

Position Title	Series/Grade
Supervisory Equal Opportunity Manager	GM-360-14
Equal Opportunity Manager	GM-360-14
Equal Opportunity Manager	GM-360-13
Equal Opportunity Specialist	GS-360-12
Equal Opportunity Specialist	GS-360-12
Equal Opportunity Specialist	GS-360-12
Equal Opportunity Specialist	GS-360-12
Equal Opportunity Specialist	GS-360-12
Equal Opportunity Specialist	GS-360-12
Equal Opportunity Specialist	GS-360-12
Equal Opportunity Specialist	GS-360-12
Equal Opportunity Specialist	GS-360-12
Equal Opportunity Specialist	GS-360-11
Equal Opportunity Specialist	GS-360-11
Secretary (Typing)	GS-318-07
Secretary (Typing)	GS-318-06
Clerk Typist	GS-322-05
Clerk Typist	GS-322-05

SMALL AND DISADVANTAGED BUSINESS UTILIZATION
OFFICE OF ADVOCACY AND ENTERPRISE

The Office of Small and Disadvantaged Business Utilization (OSDBU) was established as a result of Public Law 95-507. The law, enacted October 24, 1978, required each Federal agency with contracting authority to establish an OSDBU office with a mandate to ensure maximum utilization of small and disadvantaged businesses in Federal contracts and subcontracts. Prior to P.L. 95-507, the minority business functions and small business functions were carried out independently in many Federal agencies or not at all in others.

OSDBU is responsible for the implementation and execution of programs under sections 8 and 15 of the small business act, as amended, and other programs consistent with the Government's procurement preference programs. Specifically, these programs are:

- The Small Business Set-Aside Program, under which the Department permits competition on certain solicitations only among small businesses;
- The Section 8(a) Program, under which the Department enters into contracts with the Small Business Administration (SBA) for supplies and services, and the SBA subsequently subcontracts concompetitively for these requirements with approved socially and economically disadvantaged firms;
- The Minority Business Enterprise (MBE) Program, under which the Department takes affirmative action to contract on a competitive basis with minority businesses;
- The Labor Surpus Area (LSA) Program, under which the Department restricts competition to firms located in LSA's or which agree to perform most of the contract work in areas of high unemployment;
- The Women's Business Enterprise (WBE) Program, under which the Department takes affirmative action to ensure that businesses owned and controlled by women are offered an opportunity to compete on contracts awarded by the Department;
- The small and disadvantaged business subcontracting program, under which the Department requires large companies with contracts over $500,000 ($1 million for construction) to establish a subcontracting plan that provides maximum utilization of small and disadvantaged businesses; and
- The small purchase - small business set-aside program, under which all purchases under $10,000 are automatically set aside for small business.

SMALL AND DISADVANTAGED BUSINESS UTILIZATION
OFFICE OF ADVOCACY AND ENTERPRISE

STAFFING

Position Title	Series/Grade
Associate Director, Small and Disadvantaged Business Utilization	ES-301-01
Deputy Associate Director	GM-301-15
Program Analyst	GM-345-13*
Program Analyst	GS-345-12
Procurement Analyst	GS-1102-11
Program Coordinator	GS-301-09
Secretary	GS-318-07
Secretary	GS-318-05

* Part Time Employee

OFFICE OF COMPETITION ADVOCACY
OFFICE OF ADVOCACY AND ENTERPRISE

Competition advocacy encompasses a wide range of efforts, including the following:

1. Advocates for competition, on a Departmentwide basis, challenges barriers to and promotes full, open, and fair competition.

2. Assures appointment of agency level Advocates for Competition.

3. Provides overall program guidance for agency level Advocates for Competition, including establishment of proactive initiatives, such as:

    a. Guidance in the form of directives, bulletins and memoranda.

    b. Criteria to be used by agency Advocates in conducting the statutorily required review process.

    c. Training and otientation publications for procurement personnel.

4. Recommends goals for increasing competition on a fiscal year basis to the Deputy to the Secretary for Procurement.

5. Performs a detailed analystical review of all non-competitive procurement transactions which require approval of the procurement executive (over ten million dollars) to assess circumstances causing such procurements and recommends ways to obtain competition in the future.

6. Reviews procurement agencies' operations to assure that full and open competition is obtained.

7. Conducts staff assistance visits to agencies' procurement offices to assure compliance with the Competition in Contracting Act.

8. Prepares formal procurement review reports with findings and recommendations.

9. Prepares the annual report to Congress, describing initiatives undertaken to promote the Competition in Contracting Act.

RETIREMENT PAY SYSTEM

Mr. **Whitten**. On page 2g-2 of the explanatory notes, reference is made to the continuing effort to develop a pay system for employees to cover the time between retirement and receipt of the initial annuity check. How long have you been developing the system?

Mr. **Franke**. The Office of Personnel recently completed a study begun in January 1985 into the need for a pay system for employees between the effective date of retirement and receipt of the first annuity check from the Office of Personnel Management. This study was based on indications that retirees or surviving spouses in the case of death of an employee often undergo financial hardship because of the time lag. Because the study failed to confirm this as a problem, the development of such a pay system is no longer being considered.

Mr. **Whitten**. What is the average time between retirement and receipt of the initial check?

Mr. **Franke**. Our study revealed that the average time elapsed is 60-90 days. I would like to point out, however, that retiring employees receive their final paycheck approximately two weeks after they separate from the Government and a lump sump payment for accrued annual leave approximately two weeks after that. For many retiring employees, this lump sum payment represents several weeks of pay.

Mr. **Whitten**. What are the problems to be resolved?

Mr. **Franke**. At the present time, we are developing information which will be made available to employees concerning their responsibilities in assuring the timely receipt of their initial annuity check. Similar information will also be provided for employees to share with their spouses concerning survivor annuities. In addition, we are continuing to monitor the present system of processing retirement claims through the agencies and our National Finance Center to the Office of Personnel Management.

USDA MANAGEMENT

Mr. **Whitten**. Please submit for the record a copy of the most recent USDA Management Plan.

Mr. **Franke**. I will gladly provide a copy of the most recent plan. An updated plan is currently in preparation and should be available in May.

[The information follows:]

United States
Department of
Agriculture

January 1985

Secretary John R. Block

USDA
Management Plan

INTRODUCTION

The Secretary has selected management improvement as one of the Department's highest priorities for the period 1985-1988. Departmental leaders are committed to joining with the President in a program to modernize and improve management structures, systems, and methods.

This Five-Point Management Plan was developed in the Office of the Secretary as the framework for the Department's management improvement efforts. It does not address the reduction of programs and services to the public; only modernization of the management process that delivers those programs.

The Plan addresses dollars, information, structure, people, and the management process itself. It serves as the umbrella for developing a focus to specific projects, but it is also intended to allow flexibility for the Department's agencies and staff offices to develop their own initiatives and projects.

The planning process is intended to stimulate participation by employees and constituents of the agriculture mission. Action will be built on cooperative efforts between Departmental Administration staff offices and agencies to establish a viable and flexible approach for nurturing the ideas of the workforce, constituents, and policy leaders into meaningful and measurable results.

The Plan has roots in many of the initiatives and accomplishments begun as part of the President's management improvement programs. Since it focuses on fundamental management principles, the Plan will be applicable regardless of the configuration of programs or agencies, and is tailored to adjust to change.

The Plan addresses critical issues facing the management of USDA.

- Rapid-fire improvements in technology in the early 80's have made the in-depth reassessment of management processes unavoidable.
- The "Federal deficit" and potential changes to farm programs requires the workforce to adjust and tune in to change. Government must become leaner and the workforce must be equipped to handle new directions.
- Dwindling resources demand adjustments in the style of management and the design of support functions. USDA is entering a dynamic time in which, not only will programs change, but resources for delivery will be fewer and the old ways of doing things will not be acceptable.

Sensitivity to program priorities is built in. The agenda has been orchestrated to be flexible and adjustable but inexorable. In other words, management improvement initiatives will complement changing programs.

The focus of this Plan is directed toward two goals: saving money and improving the efficiency of program delivery. Over the next four years, the cumulative effort will:

- Streamline the structure in tune with the current needs of agriculture;
- Reduce program support costs through productivity improvements;
- Increase the use of the private sector and cross-servicing;
- Recognize the value of the dedication and competence of USDA employees and increase productivity by enhancing their skills;
- Increase the use of automation; and,
- Improve financial management throughout the Department.

The Plan is a pragmatic approach to change. It puts together in one place, the principal, management-related initiatives that USDA will undertake, capturing not only the policies of the President, but those actions which USDA considers important to the management of the Department.

Secondly, the Plan provides policy leaders and managers with down-to-earth objectives which can be met. It is ambitious, but manageable and doable. This approach will promote coordination, allow tracking with minimal effort, reduce conflicts, and shortstop the possibility that management reform will be a surprise.

Thirdly, the Plan represents a bottom-up approach to planning. Agency managers, the workforce, and constituents will have a part in addressing the issues identified under the five initiatives.

FOREWORD

This document presents the framework and scope of USDA's management improvement program, indicates lead responsibility, and, most importantly, describes the milestones leading to results. It is a summary, and, therefore, the narrative is limited to basic information that provides an overview of the planning strategy.

The five principal initiatives each have specific projects. On the following pages an explanation of each initiative is followed by its projects. Departmental leadership will work with the agencies in formulating specific plans and executing activity.

January 1985

INITIATIVE I

FINANCIAL MANAGEMENT

Financial management improvement addresses cost reductions through improving the effectiveness and efficiency of USDA's cash, debt, travel, cost management, payment integrity, cost accounting, and accounting systems

Goals:

- Accelerate cash receipts and improve payment processes (OFM)
- Increase debt collections (OFM)
- Improve travel management (OFM)
- Improve cost management (OFM)
- Provide cross-servicing between Federal agencies (OFM)
- Develop and implement USDA-wide, Financial Information System (OFM)

ACCELERATE CASH RECEIPTS AND IMPROVE PAYMENT PROCESSES

USDA is focusing increased attention on the subject of cash management and payment processes. Cash management is the acceleration of receipts (the expeditious billing, collecting, and depositing of receipts), the timely disbursement of payments (the scheduling of payments on due dates, not early or late), and the investment of any temporary excess cash balances.

The Deficit Reduction Act of 1984, requires that USDA improve financial systems and procedures for verifying the income and eligibility of recipients for assistance and benefit programs.

Results:

- Increased cash collections
- Cash management improvements including electronic transfer of funds, expeditious deposit of receipts, and reduction of interest payments
- Improved financial systems and procedures for verifying the income and eligibility of recipients for assistance and benefit programs

Responsibility:

- Office of Finance and Management

Milestones:

- Publish payment integrity regulations	5/85
- Broaden use of concentration banking system for deposit of receipts	10/86
- Expand use of electronic funds transfer systems for collecting receipts and making payments	10/86
- Expand use of lockbox systems for collecting receipts	7/87
- Improve bill paying and reduce interest costs	10/87

Measurement:

- Amount of interest savings to Treasury and USDA agencies
- Number of transactions and dollar amounts collected by lockbox, concentration banking, and electronic funds transfer
- Number and amount of bills paid late
- Amount of penalty interest paid
- Number of ineligible recipients removed from assistance and benefit programs

INCREASE DEBT COLLECTIONS

Debt collection involves the proper accounting for receivables and prompt aggressive collection action. The Debt Collection Act of 1982 authorizes Federal agencies to refer information on delinquent debts to consumer reporting agencies; use salary offset, where applicable, for recovering delinquent debts; assess interest, penalties, and administrative costs on delinquent debts; and use private contractors to service and collect government debts.

RESULTS:

- Increased debt collections on loans, accounts receivable, and claims
- Credit management improvements including use of collection agencies, credit bureaus, private sector attorneys, and the Governmentwide Model Accounts Receivable System

RESPONSIBILITY:

- Office of Finance and Management

MILESTONES:

- Implement the Governmentwide Model Automated Accounts Receivable Management System	11/85
- Expand use of credit bureau services	7/86
- Expand collections by administrative and salary offset	7/86
- Strengthen credit extension programs	1/87
- Use IRS collection tools	1/87
- Expand use of contractors to collect debts	1/87
- Use private sector attorneys	1/87
- Complete reporting of account information to credit bureaus	7/87

MEASUREMENT:

- Amount of debt collections
- Amount of debt write-offs and delinguency rates
- Number of loans referred to collection agencies and private sector attorneys
- Number of credit bureau reports used
- Number of accounts reported to credit bureaus
- Number and amount of administrative and salary offsets

IMPROVE TRAVEL MANAGEMENT

USDA travel costs amounted to $150 million in FY 1984. The Deficit Reduction Act of 1984 requires that the Federal Government reduce its overall travel expenditures in a period of escalating travel costs.

Results:

- Decreased travel and related costs

Responsibility:

- Office of Finance and Management

Milestones:

- Complete Phase I of the USDA Travel Management Action Plan including Government Transportation System, general travel authorizations, and credit cards	1/86
- Complete Phase II of the USDA Travel Action Plan including flat-rate per diem, travelers checks, travel/salary reimbursement, automated travel regulations, expanded expenditure analysis, and testing of centralized nationwide travel agency concept	1/88

Measurement:

- Use of contract air fares
- Number of travel days
- Approval of the use of general travel authorizations by central agencies
- Number and amount of cash travel advances
- Number and cost of common carrier tickets purchased through travel agents
- Travel reimbursement checks issued

IMPROVE COST MANAGEMENT

USDA established the cost management program to reduce the cost, improve management reporting and control systems, and improve the management of services provided to USDA by other Federal agencies. USDA is spending approximately $25 million in workers compensation, $30 million in unemployment compensation, $30 million in FTS service, $110 million in rent, and $55 million in postal costs. Bills often do not contain sufficient information to permit verification of charges or properly allocate costs among the USDA agencies.

Results:

- Rehabilitated and rehired employees with long-term disabilities
- Verified and accurately distributed unemployment compensation costs
- Improved management reporting and cost control systems
- Improved management of space, telephone, and post service costs

Responsibility:

- Office of Finance and Management

Milestones:

- Implement automated unemployment claimants identification system	4/85
- Resolve American Telephone and Telegraph billing problems resulting from divestiture	7/85
- Implement automated reconciliation system for unemployment compensation cases	7/85
- Implement system to process claims, controvert cases, and report on unemployment cases	7/85
- Implement rehabilitation and hire program	8/86
- Verify Federal Telephone Service billings	10/86
- Verify General Services Administration space billings	3/87
- Verify space transfer costs	10/87
- Implement mail utilization program	10/87

Measurement:

- Number of former disabled employees returned to labor force
- Amount of overpayments refunded to USDA agencies
- Amount of space, telephone, and postal service charges

- Operate payroll/personnel applications for the Department of Commerce: Initial implementation	7/85
- Fully implement billings and collections for the Department of Education	10/85
- Use EPA's automated procurement documentation system software package and support functions	12/85
- Operate payroll/personnel applications for the Department of Commerce: Full implementation	7/86

Measurement:

- Number of cross-servicing transactions and value of services

PROVIDE CROSS-SERVICING BETWEEN FEDERAL AGENCIES

USDA has entered into cross-servicing agreements with several other Federal agencies. These agreements will assist in: (1) implementing cost-effective automated systems throughout the Federal Government; and (2) reducing interagency duplication in the design, development, implementation, and maintenance of such systems. USDA will provide services to the Department of Commerce, Department of Education, and the Merit Systems Protection Board. The Environmental Protection Agency will share with USDA the use of an automated procurement documentation system, software package and provide support functions.

Results:

- The Department of Commerce, the Department of Education, and the Merit Systems Protection Board cross-serviced
- Systems and procedures to recover the full cost of cross-servicing other Federal Departments and agencies
- Reduced fixed overhead charges to USDA agencies through cross-servicing arrangements
- EPA's automated procurement documentation system software package and support functions used by USDA

Responsibility:

- Office of Finance and Management in cooperation with Office of Personnel and Office of Operations

Milestones:

- Operate administrative systems for the Merit Systems Protection Board including payroll/personnel, a wide range of administrative payments, and accounting	Ongoing
- Operate administrative systems including miscellaneous payments, travel and transportation, and purchase orders for the Department of Education	Ongoing
- Implement initial billings and collections for the Department of Education	2/85
- Develop improved cost accounting systems and procedures	6/85

DEVELOP AND IMPLEMENT THE USDA-WIDE FINANCIAL INFORMATION SYSTEM

USDA policymakers need complete, accurate, consistent, and timely financial data and information to manage operations efficiently and effectively. Demands to fund programs and to provide for new investments require accurate financial information for making sound resource allocation decisions. Managers must know what each program and service costs and why, in order to control the cost of operations.

Results:

- Financial Management Information System in conformance with OMB guidance
- USDA-wide Financial System with remote two-way electronic reporting, updating, and inquiry capabilities

Responsibility:

- Office of Finance and Management

Milestones:

- Complete Phase I of the USDA-wide Financial Information System: Financial data base development	5/86
- Complete Phase II of the USDA-wide Financial Information System: Electronic reporting	5/87
- Complete Phase III of the USDA-wide Financial Information System: Full decision support system	10/88

Measurement:

- Number of electronically transmitted external financial reports and inquiries

INITIATIVE II

INFORMATION RESOURCES MANAGEMENT

This initiative deals with the management of information as a valuable resource including the acquisition, processing, communication, and retention of that information. This also includes automated data processing, data administration, telecommunications, office automation, and records and paperwork management.

The thrust of this initiative is to improve the delivery of program through: 1) better management and utilization of information and information technology; 2) promoting commitment on the part of agency administrators and managers; and 3) Departmentwide information sharing.

Goals:

- Develop a strategic framework and institutionalize long-range planning (OIRM)
- Strengthen review and oversight (OIRM)
- Develop policies and standards for compatibility (OIRM)
- Improve data processing and expand communications (OIRM)
- Consolidate microcomputer acquisitions (OIRM)
- Standardize methodology for computer acquisitions (OIRM)

DEVELOP A STRATEGIC FRAMEWORK AND INSTITUTIONALIZE LONG-RANGE PLANNING

Long-range planning, including a strategic framework, is needed to serve as the cornerstone upon which major IRM initiatives can be built.

Results:

- Long-range strategic planning for information resources management

Responsibility:

- Office of Information Resources Management

Milestones:

- Develop a strategic framework to shape the Department's major IRM initiatives	9/85
- Institutionalize long-range IRM planning system	12/85

Measurement:

- Program savings estimated by agencies as result of improved planning

STRENGTHEN REVIEW AND OVERSIGHT

Increased investments and greater use of technology demand oversight at the Departmental level.

Results:

- Strengthened IRM review and oversight program

Responsibility:

- Office of Information Resources Management

Milestones:

- Establish agency IRM self-review program with OIRM evaluation and oversight	12/85
- Complete IRM reviews of major agency office automation systems and IRM activities	9/88

Measurement:

- Dollar value of investments reviewed

- Number of significant reviews completed

DEVELOP POLICIES AND STANDARDS FOR COMPATIBILITY

Policies and standards should be developed and implemented to provide needed compatibility across USDA computer hardware and software systems to increase opportunities for information sharing between USDA agencies.

Results:

- Policies and standards for greater compatibility
- Easy access to more information

Responsibility:

- Office of Information Resources Management

Milestones:

- Reassess technology in hardware, software, and communications to determine appropriate policies and standards for greater compatibility	9/86
- Issue policies and standards to assure increased compatibility and information sharing between USDA agencies	9/88

Measurement:

- Ease of transferring information

IMPROVE DATA PROCESSING AND EXPAND COMMUNICATIONS

More effective, economical, and reliable data processing and communications equipment and services are needed throughout USDA to support program delivery.

Results:

- Improved data processing communications services at Departmental Computer Centers, agency headquarters, and field locations

Responsibility:

- Office of Information Resources Management

Milestones:

- Begin procurement process to accomplish A-76 review of Departmental Computer Centers	3/85
- Award contract and commence implementation of the Agriculture Washington Area Telecommunications System including local area network for data communications and digital-based voice systems	9/86
- Acquire required hardware and software systems at Departmental Computer Centers and agency field locations	9/88
- Continue to increase and consolidate the Department's use of a contractor operated public network for long distance data transmission	9/88

Measurement:

- Amount of data processing and communications achieving desired service levels
- Favorable benefit/cost analysis for increased productivity investments
- Completed A-76 reviews
- Client satisfaction

CONSOLIDATE MICROCOMPUTER ACQUISITIONS

Consolidated acquisitions should be undertaken to provide agencies with required microcomputers at least cost.

Results:

- Savings through avoidance of individual agency procurements
- Increased commonality of hardware in USDA

Responsibility:

- Office of Information Resources Management

Milestones:

- Award consolidated microcomputer contract for FmHA/SCS	9/85
- Develop requirements for consolidated acquisitions	9/86
- Award consolidated microcomputer contracts	9/87

Measurement:

- Reductions in agencies' budget requirements
- Favorable benefit/cost analyses
- Number of previously planned procurements eliminated through consolidated procurements

STANDARDIZE METHODOLOGY FOR COMPUTER ACQUISITIONS

The acquisition of mainframe computers, minicomputers, and peripheral equipment should be standardized in the selection criteria, selection teams, negotiating process and requirements levied on the vendor community.

Results:

- Standard methods for integrated acquisitions of computer equipment

Responsibility:

- Office of Information Resources Management

Milestones:

- Develop a standard approach to the procurement of different classes of computer equipment (mainframes, minicomputers, and peripheral computer equipment) in the Departmental Computer Centers and in the agencies	10/86
- Combine separate computer center requirements into integrated procurements	10/88

Measurement:

- Reviews of standardized approaches
- Vendor reaction
- The number of variables reduced or eliminated through standardization and integration
- Capability of selected equipment to perform mission

INITIATIVE III

COOPERATIVE PROCESSING AND PROGRAM SUPPORT

This initiative emphasizes the improvement of field operations and their responsiveness, efforts to consolidate administrative support, and the maintenance of adequate administrative services and program delivery. It includes upgrading and streamlining administrative systems so that: 1) centralized systems can be used for cost-effective processing of common administrative actions and providing information for central data bases; 2) unique agency processes and information needs can be better served by agency computing facilities; and 3) opportunities for the cooperative sharing of resources are identified and developed into efficient changes.

Goals:

- Streamline administrative support services and program delivery (Office of the Secretary)
- Implement cooperative processing (OIRM)

STREAMLINE ADMINISTRATIVE SUPPORT SERVICES AND PROGRAM DELIVERY

USDA'S extensive field structure contains multiple parallel systems for both program delivery and administrative support services.

Results:

- Feasible and effective improvements in program delivery
- Reduced resources devoted to selected administrative support functions
- Increased productivity of selected administrative functions
- Increased sharing or consolidation of program functions in field offices

Responsibility:

- Office of the Secretary

Milestones:

- Identify and conduct preliminary analysis of methods for evaluating the Department's field structure	3/85
- Determine which method(s) has the most potential	4/85
. Identify data requirements and source	
. Divide up tasks and responsibilities	
- Conduct analysis to identify systems, locations, functions, or structures with major potential for effective change. Coordinate with state and local organizations to identify appropriate areas for consolidation review	8/85
- Implementation Plan Approved By The Secretary	9/85

Measurement:

- Factors identified under "Results" will be measured through monitoring of data on numbers of offices, numbers of personnel, productivity ratios, dollar savings, and overall quality of program delivery

IMPLEMENT COOPERATIVE PROCESSING

A concept has been developed and is being implemented throughout USDA which enables agencies to input, process, access and retrieve information related to administrative systems from remote locations while capitalizing on centralized administrative systems processing.

The Secretary's Memorandum on Cooperative Processing established these initiatives in 1984.

Results:

- Cooperative processing for administrative systems throughout USDA

Responsibility:

- Office of Information Resources Management

Milestones:

- Increase awareness and acceptance throughout USDA	6/85
- Expand pilot projects in cooperative processing	9/86
- Expand cooperative processing to all USDA agencies	9/88

Measurement:

- Ease of agency access to its own data
- Timeliness in accessing individual agency data from remote locations
- Amount of increased satisfaction with decentralized access, control, and management of agency information
- Number of local data bases linked to central systems

INITIATIVE IV

EFFECTIVE WORKFORCE UTILIZATION AND ACCOUNTABILITY

Changing times require USDA to prepare employees to meet the demands and stresses brought about by organizational and technological changes and a reduced workforce. This initiative further assures that USDA employees will be provided a better opportunity to obtain the skills and training required to carry out their work assignments efficiently and effectively in a dynamic environment.

Goals:

- Design and maintain work environments which respond to the physical limitations of employees (OO)

- Recognize employee talent and contributions (OP)

- Improve employee/supervisor communication and cooperation (OP)

- Provide training and educational opportunities for employees (OP)

- Design and promote employee fitness and wellness programs (OFM)

- Improve position management (OP)

DESIGN AND MAINTAIN WORK ENVIRONMENTS WHICH RESPOND TO THE PHYSICAL LIMITATIONS OF EMPLOYEES

To assure full utilization of employee abilities, it is a Departmental policy that its facilities provide reasonable access and acceptable environmental conditions for the disabled.

Results:

- USDA job sites which assure barrier-free access and appropriate environmental accommodations for all employees

Responsibility:

- Office of Operations in cooperation with Office of Personnel

Milestones:

- Conduct on-site analysis of USDA D.C. complex to identify physical barriers and work environment deficiencies	3/85
- Develop timetable for making work environment alterations	5/85
- Issue policy and guidance to USDA agencies	6/85
- Complete initial work environment improvements, begin ongoing maintenance and review	3/86

Measurement:

- Removal of physical barriers and environmental inadequacies

RECOGNIZE EMPLOYEE TALENT AND CONTRIBUTIONS

USDA Awards Programs need to be simplified to encourage employee participation and encourage supervisors to recognize the contributions and talents of employees.

Results:

- Improved employee morale
- Increased job satisfaction and productivity

Responsibility:

- Office of Personnel

Milestones:

- Review, revise, and simplify the current USDA employee award programs	4/85
- Issue policy and guidance to USDA agencies	7/85
- Publicize quarterly the USDA program and award recipients	9/85

Measurement:

- Results based on recognized performance

IMPROVE EMPLOYEE/SUPERVISOR COMMUNICATIONS AND COOPERATION

Provide additional opportunities that will enhance communication and cooperation between employees and supervisors.

Results:

- Better informed employees
- Improved cooperation and interaction between employees and managers

Responsibility:

- Office of Personnel
- Office of Governmental and Public Affairs

Milestones:

- Review, revise, and simplify the current USDA employee suggestion program	7/85
- Issue policy and guidance to USDA agencies	7/85
- Enhance, enforce, and monitor the employee performance appraisal system	7/85
- Enforce and monitor supervisory training requirements	7/85
- Hold an Idea Week semi-annually	7/85
- Redesign and improve contents and information of the USDA Newsletter	7/85

Measurement:

- Improved communications and cooperation
- Increased participation in suggestion program and Idea Week

PROVIDE TRAINING AND EDUCATIONAL OPPORTUNITIES FOR EMPLOYEES

To assure that all USDA employees are provided the opportunity to obtain the essential skills and training required to perform their work assignments efficiently and effectively

Results:

- Better skilled workforce and employee skill identification

Responsibility:

- Office of Personnel

Milestones:

- Establish system to monitor mandatory training for supervisors and managers	5/85
- Establish system to monitor knowledge, skills, and abilities to employees relative to job requirements	5/85
- Enforce requirement for and monitor use of Individual Development Plans	5/85
- Establish, monitor, and evaluate systems for job engineering	6/85
- Develop a process to better manage USDA training resources	6/85

Measurement:

- Improved workforce utilization

DESIGN AND PROMOTE EMPLOYEE FITNESS AND WELLNESS PROGRAMS

USDA employees perform a wide variety of complex activities in many diverse locations, often under potentially hazardous and stressful conditions. The impact on employee wellness is significant. The Department pays, in workers' compensation alone, over $25 million each year. There are countless other indirect costs (losses in productivity, use of sick leave, etc.) associated with the impact of the workplace on the employee.

Public and private sector experiences have shown that prevention or reduction of these problems can be achieved through emphasis on occupational safety and health program components (safety, industrial hygiene, employee assistance, and fitness).

Results:

- Improved morale
- Minimum employee exposure to harmful and potentially harmful work conditions
- Reduced paperwork, down time, and other interruptions or interference with employee activities due to avoidable injury, illness, or related problems

Responsibility:

- Office of Finance and Management

Milestones:

- Conduct a needs analysis within USDA agencies to determine the status of employee programs and services	6/85
- Investigate innovative programs, methods, and techniques for improved safety, health, wellness, and fitness programs or other employee services	10/85
- Implement "agency specific" improvement projects throughout USDA	10/85
- Implement a tracking and evaluation system to monitor progress of improvement projects	1/87
- Revise, modify, or redirect existing improvement projects or devise new projects as necessary	Ongoing

Measurement:

- Lost Time Claims reported annually
- Lost workdays due to on-the-job injury/illness
- Increased participation rates in USDA employee assistance, wellness, and fitness program activities and services
- Long-term reductions in health care costs to employees

IMPROVE POSITION MANAGEMENT

To track the dynamics of the workforce and provide a more efficient and cost-effective utilization of personnel to better administer administrative consolidation, contracting out, and reduction of the GS/GM 11-15 grade bulge

Results:

- Better utilization of the workforce at an appropriate cost to the taxpayers

Responsibility:

- Office of Personnel

Milestones:

- Develop automated position management system	2/85
- Develop and issue policy guidance to agencies on management of GS/GM 11-15 grade bulge	8/85
- Implement the Automated Position Management system to identify potential for improvement for all grade levels through consolidation, job enrichment, and abolishment of vacancies	2/86

Measurement:

- Reduction of GS/GM 11-15 grade bulge

INITIATIVE V

PRODUCTIVITY IMPROVEMENT

Productivity improvement means a capability to adjust and/or reshape functions to be more efficient and effective at the lowest cost. This applies to programs, processes for program delivery, and administrative support.

To be comprehensive and effective, productivity improvement must begin with Departmental leadership promoting sound and achievable management practices which can be implemented at the agency level.

Departmental action will be three-fold. First, "acid test" reviews will be conducted to identify portions of targeted functions and activities that should yield savings. Secondly, reviews will be conducted to identify those improvements that will result in savings. Thirdly, USDA will implement recommended improvements.

A specific outcome of these reviews will be a determination as to what activities could be appropriate for private sector contracting.

Goals:

- Define and develop policies, principles, and standards (OFM)
- Identify productivity review projects (OFM)
- Maintain management environment for change and innovation (OFM)
- Establish and maintain data for performance and progress measurement (OFM)

DEFINE AND DEVELOP POLICIES, PRINCIPLES, AND STANDARDS

The development of principles and standards for functional areas would permit the identification of operations needing productivity improvement and could help USDA channel review resources where the most savings are possible. A guide would assist in obtaining consistency in the quality of reviews.

Results:

- Productivity improvement review guide
- Principles and standards for commercial activities
- Quick identification of areas needing review
- Policy issuances combining central agency requirements with USDA needs

Responsibility:

- Office of Finance and Management

Milestones:

- Establish agency responsibilities	3/85
- Issue final productivity improvement policy	7/85
- Issue final management review guide	7/85

Measurement:

- Number, accuracy, and effectiveness of policy, principles, and standards

IDENTIFY PRODUCTIVITY REVIEW PROJECTS

The conduct of "acid test" reviews would identify the potential savings from productivity improvements, the standards best suited for evaluation of functions, and a prioritized list for future in-depth reviews. Review teams of employees representing a cross-section of the Department will be formed.

Results:

- Prioritized review projects
- Identification of cost reductions and productivity improvements
- Implementation of contracting and cross-servicing activities
- Incorporation of internal management initiatives, employee ideas, and external initiatives

Responsibility:

- Office of Finance and Management

Milestones:

- Prioritize "acid test" targets	2/85
- Identify team leaders and establish review teams	2/85
- Obtain approval of project plans	3/85
- Issue review reports	6/85
- Evaluate results of task forces and recommend changes	6/85
- Brief top management	7/85
- Establish final productivity improvement inventories	7/85
- Proceed on in-depth review activities	8/85

Measurement:

- Reduced staffing costs
- Reduced overhead costs
- Improved cost per unit
- Increased output per employee

MAINTAIN MANAGEMENT ENVIRONMENT FOR CHANGE AND INNOVATION

USDA needs to create a mechanism that will continue to encourage change, innovation, and risk-taking rather than the maintenance of the status quo.

Cross-functional/cross-agency review teams would be a means to address and develop recommendations on identified subjects such as, organization, issues, and functions.

Results:

- Continuing review/change/improvement of functions
- Continuing input from all levels within USDA
- Network at top

Responsibility:

- Office of Finance and Management

Milestones:

- Establish management forum for input to productivity improvementc activities	6/85
- Implement program to network top-level managers at Headquarters and in field	Ongoing

Measurement:

- Quantity and quality of innovative ideas
- Timeliness of implementation

ESTABLISH AND MAINTAIN DATA FOR PERFORMANCE AND PROGRESS MEASUREMENT

Formal tracking of the productivity review activities (acid test, in-depth, and agency reviews and resulting recommendations) is needed to ensure that the actions take place as planned. The "acid test" reviews should be tracked initially and then the in-depth and agency reviews should be tracked as they are identified.

Results:

- Goals are met
- Identification of actual savings

Responsibility:

- Office of Finance and Management

Milestones:

- Establish system to track "acid test" reviews	3/85
- Establish system to track progress of in-depth productivity improvement reviews	6/85
- Establish data base for in-depth review milestones	7/85
- Link to OMB Circular 84-14, Management Improvement Plans	7/85

Measurement:

- Identification of new areas for review
- Turnaround time on data requests

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

January 31, 1985

SECRETARY'S MEMORANDUM 1100-1

FIVE-POINT MANAGEMENT PLAN

1 BACKGROUND

A Five-Point Management Plan has been developed as the strategy for improving program management and administrative support in USDA. The Plan focuses on five broad areas under which specific actions will be developed. It reflects not only the initiatives begun under Reform '88, but also aggressively supports the President's priority goal to streamline Government operations.

This Plan retains the basic management goals established in 1983:

a to ensure that USDA's administrative management systems and procedures provide for prompt, effective accomplishment of program missions; and

b to ensure that programs receive the management support they need at the lowest possible cost.

The Plan also emphasizes the need for innovation and modernization over the next four years.

2 EMPHASIS

The Plan builds on initiatives already begun and brings them under a common and coordinated strategy. The Plan will incorporate internal management initiatives, employee ideas generated through Idea Week and the Quality of Worklife Study, Office of Management and Budget initiatives, and the related "Grace Commission" recommendations. It will result in management improvements involving cooperative efforts of the Departmental staff offices and all agencies. The five major areas of focus are:

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a Financial Management, including cash, debt, travel, cost management, payment integrity, cost accounting, and accounting systems.

b Information Resources Management, including long-range planning, review and oversight, standards, and communication expansion.

c Cooperative Processing and Program Support, including local processing, automation, and streamlining of program delivery and administrative support.

d Effective Workforce Utilization, including quality of worklife, employee performance, training, morale, safety and health, and job enrichment.

e Productivity Improvement, including internal management improvements and controls, private sector contracting, and inter-Departmental cross-servicing.

3 RESPONSIBILITIES

The Assistant Secretary for Administration will have primary responsibility for development, coordination, and monitoring of programs. Other General Officers of the Department will be responsible for the active support and implementation of programs in their respective agencies and offices.

John R Block

SECRETARY OF AGRICULTURE

DEBT MANAGEMENT

Mr. WHITTEN. On page 2g-4 of the explanatory notes reference is made to the $9.2 billion in delinquent debt owed USDA. Please provide for the record a table showing by agency and by program the delinquent indebtedness.

[The information follows:]

As of September 30, 1985
(In billions of dollars)

DEBTS OWED TO THE DEPARTMENT OF AGRICULTURE

Type of Debts	Type of Borrowers	Total Amounts Owed	Amounts Delinquent	Total Number of Accounts	Number of Accounts Delinquent
Farmers Home Administration					
Farm Operating and Ownership Loans	Farmers	$32.913	$6.620	813,084(e)	256,203(e)
Rural Housing Loans	Rural Homeowners	$29.690	$.264	1,288,099(e)	259,164(e)
Rural Development Loans	Government entities, and non-profit organizations providing public services in rural areas	$8.966	$.013	25,681(e)	377(e)
SUBTOTAL		$71.569	$6.897	2,126,864(e)	515,744(e)
Rural Electrification Administration					
Rural Electric Loans	Providers of electric services in rural areas	$35.997	$1.196	22,400(e)	3
Rural Telephone Loans	Providers of telephone services in rural areas	$1.391	-	2,100(e)	-
SUBTOTAL		$37.388	$1.196	24,500(e)	3

Type of Debts	Type of Borrowers	Total Amounts Owed	Amounts Delinquent	Total Number of Accounts	Number of Accounts Delinquent
Commodity Credit Corporation					
Price Support Loans	Farmers and some processors	$26.343	$.603	578,401	36,328
SUBTOTAL		$26,343	$.603	578,401	36,328
Other USDA Agencies and Staff Offices					
Food Stamp Payments, Inspection Services, Timber Sales, etc.	Food Stamp Recipients, Inspection Service Recipients, Timber Operators etc.	*$.667	*$.501	**1,335,852	**1,247,985
SUBTOTAL		$.667	$.501	1,335,852	1,247,985
GRAND TOTAL:		$135.967	$9.197	4,065,617	1,800,060

*$.315 of these amounts represent Food and Nutrition Service Food Stamp overpayments.

**1,216,895 of these accounts represent Food and Nutrition Service Food stamp overpayments.

NOTE: State agencies have responsibility for collection of food stamp overpayments.

DEBT COLLECTION

Mr. WHITTEN. Reference is also made to expanded use of Credit Bureaus, contractors to collect debts, administrative and salary offsets, and IRS collection tools. Please explain for the record the circumstances in which each of these tools is used and whether or not they have increased collection of delinquent debt.

Mr. FRANKE. Most USDA agencies report all credit information to commercial credit business on a regular basis. The use of commercial credit reports in decisionmaking and debt collection activities, however, is very limited. The Rural Housing Program requires mortgage credit reports for all applicants. USDA does not have data available to measure whether credit reporting has increased collections.

USDA will refer delinquent accounts to collection contractors after in-house efforts have been unsuccessful, and it is determined that a contractor would be more productive in recovering delinquent debts owed to the Government. USDA provides debtors with all required due process. Based on a pilot project, we feel that use of contractors will significantly increase collection of delinquent debts.

Some USDA agencies currently use administrative offsets to collect delinquent debts. USDA's final salary offset regulation was published in the Federal Register on March 17, 1986. Although we have not had any activity in this area to date, we expect that the regulation will significantly increase the collection of debts. A previous study showed that several thousand Federal employees were delinquent on program loans owed to USDA. USDA's use of administrative offset, which predates the Debt Collection Act of 1982, is considered the most significant means of collecting delinquent debts by a major USDA agency.

USDA makes limited use of the Internal Revenue Service's Locator Service in securing current addresses of delinquent debtors. In addition, USDA's Farmers Home Administration Rural Housing Program is participating in IRS's Tax Refund Offset Project. Only borrowers delinquent over 6 months, who had not made other arrangements for loan repayments, were referred to IRS for tax refund offset. As of March 20, 1986, the Tax Refund Offset Project has resulted in collections of $354,000.

Mr. WHITTEN. Are any or all used to collect delinquent debt owed by participants in the farm programs? If so, to what degree are they used?

Mr. FRANKE. At present, only the administrative offset is used to collect delinquent debts from farm program borrowers. Although data is not available concerning the degree of usage of this procedure, we consider administrative offset a promising means of collecting delinquent debts. However, it is expected that the salary offset and IRS tax refund offset procedures will be used to pursue delinquent farm debts in the future.

AUTOMATIC CONTRACT GENERATION

Mr. WHITTEN. On page 2g-6 of the explanatory notes, reference is made to automatic contract generation. When do you expect this system to be implemented?

Mr. **Franke**. We will begin implementation of the system during April 1986 on our IBM compatible and Prime hardware. Software for the Data General users will not be available until June of this year. Implementation should be completed by January 1987 on all hardware configurations.

Mr. **Whitten**. Please explain how the use of this system can reduce the time for preparing solicitations for contracts from 40 hours to 1 hour.

Mr. **Franke**. Creation of solicitations by manual means is a very labor intensive process. Contract specialists have to select the appropriate contract clauses and provisions prescribed by the Federal Acquisition Regulation and Departmental Acquisition Regulation. These clauses and provisions are then typed, as is all the other information required by the uniform contract format. Once typed in a camera ready condition, the solicitations must be proofed and reviewed to insure that each solicitation reflects all the proper wording. Our contract automation system selects the right clauses and provisions based upon answers provided by the contract specialist during a question and answer session on a computer terminal and builds the solicitation from the clause data base. A draft solicitation can be reviewed in minutes because reviewers need only look at nonstandard text which is highlighted.

Mr. **Whitten**. How much will you spend in design, development, and implementation of this process?

Mr. **Franke**. Since this system was already in existence at the Environmental Protection Agency, we were able to acquire and customize the basic USDA system for $16,882. Converting the software to operate on Data General hardware and making desired upgrades cost an additional $48,200. Training is expected to cost $75,000, due to our many field locations. We are projecting a first year maintenance cost of $189,000 which includes all changes in the software required by changes in the Federal Acquisition Regulation, software reproduction, and salaries for system support.

FEDSTRIP ORDERING SYSTEM

Mr. **Whitten**. On page 2g–6 of the explanatory notes reference is made to the recommendation for the department-wide adoption of the Animal and Plant Health Inspection Service's FEDSTRIP Ordering System. Please explain for the record how the system operates compared to the present system, and what is the estimated savings of the system if it is implemented.

Mr. **Franke**. The automated FEDSTRIP system consists of a data base of national stock numbers, item descriptions, and current item prices. A requisitioner calls a FEDSTRIP operator in Minneapolis and places the GSA order over the phone. The operator keys the order into the computer and confirms the correct items and prices. Every afternoon these orders are sent electronically to our National Finance Center in New Orleans where they are processed by computer and sent on to GSA. We are proposing to replace current procedures, which require the manual preparation of a FEDSTRIP requisition that is mailed to our National Finance Center where it is keypunched into the computer, processed, and sent on to GSA. We estimate a savings of from $2.00 to $5.00 per order depending on the number of items on a given order. This represents approximately $115,500 savings annually within USDA. This system also provides important savings in the amount of time between the ordering of an item and actual receipt of the item. Items ordered by the automated system are received on average 10 days sooner than by manual means and the automated system virtually eliminates costly requisitioning errors.

OFFICE OF INFORMATION RESOURCES MANAGEMENT

Mr. WHITTEN. On page 2g–7 of the explanatory notes reference is made to the Management Plan Initiatives II and III. Please explain in general terms the thrust of these initiatives, when they are scheduled for implementation, and specify the estimated cost savings for each.

Mr. FRANKE. The USDA Management Plan is made up of five major initiatives for management improvement. The thrust of Initiative II is improved program delivery through better use of information technology and information management. There are six major goals under this initiative:

Develop USDA program for increased sharing of data and use of IRM technology among farmer services agencies;

Reduce and automate internal regulations;

Enhance computer and telecommunications operations Departmentwide;

Enhance long range Information Resources Management (IRM) planning and review processes;

Develop a program for management and Departmentwide utilization of information; and

Standardize methodologies for information resources acquisitions.

Each goal deals with major activities of the Office of Information Resources Managment in support of the programs being carried on by USDA agencies.

Considerable progress has been made in achieving each of these goals over the past year under the USDA Management Plan, but continued emphasis is needed to get the maximum benefits of agencies sharing agricultural information for the good of all.

We are looking at all internal regulations in USDA to reduce the paperwork burden and streamline operations where it makes sense to do so, so that the agencies can use more of their scarce resources on program delivery. We constantly strive to improve computer operations and telecommunications and keep the costs of these services to an absolute minimum. We try to promote good planning and constant oversight and review of the acquisition and use of technology as the only way to assure that the taxpayers, and in particular the farm community, will get the greatest return on their tax investment.

Each goal under initiative II has a set of time-dependent milestones associated with it that lays out the specific actions to accomplish the entire goal. The timeframe of each milestone varies, but the implementation of these initiatives is scheduled over the next two years—end of 1988—with the exception of those few activities that are "ongoing" in nature.

The savings resulting from implementing initiative II are principally in the agencies where the benefits to their farm programs will be found. IRM is a support to these programs, but it is the farm service agencies that will save millions of dollars from sharing information beneficial to the farmers.

Long-range planning and review are good management tools and entirely necessary, but it is difficult to attach dollar savings to their proper functioning. A high price tag can be placed on work which needs to be redone many times because of lack of good planning in systems acquisitions.

In specific cases, it has been estimated that standardizing methods in the acquisition of IRM equipment will save USDA agencies over $20 million over the next five years. The Departmental contract for telecommunications services has avoided costs of over $2 million in the first year of the contract and is estimated to avoid costs of over $35 million over its eight year life span.

Initiative III aims at improving delivery through better field operations and better administrative support and systems among the agencies. The main idea is to encourage the agencies to make the best use of the centralized information available at the National Finance Center and the Departmental Computer Centers and to set up unique agency databases where these make more sense and are cost-effective. Today, the technology allows agencies to use local processing where the information is needed to be more responsive to the farmers. In other cases, only the centralized Departmental systems have the necessary information and that is what we are encouraging the agencies to use. We like to think of this as "processing information cooperatively" among the agencies and the Department.

Like initiative II, the schedule for implementing initiative III is spread across the next two years. Individual milestones and, in some cases, entire goals may be completed sooner.

The savings to the agencies from implementing initiative III will be in better, more responsive field structures and in the best possible use of centralized and distributed administrative systems for program delivery. Not only can millions be saved by avoiding the duplication of many similar administrative systems, but also the farmers will be better served.

It is estimated that USDA agencies will avoid costs of approximately $25 million over the next eight years by sharing responsibility for developing common administrative systems rather than each agency or staff office developing its own system.

LONG-RANGE INFORMATION MANAGEMENT PLAN

Mr. WHITTEN. Please submit for the record a copy of the first integrated long-range information management plan.

[CLERK'S NOTE.—The report is too lengthy to be reprinted in the record. A copy will be maintained on file.]

OFFICE OF ADVOCACY AND ENTERPRISE COMPLIANCE REVIEWS

Mr. WHITTEN. On page 2g-10 of the explanatory notes reference is made to civil rights compliance reviews of programs conducted in APHIS, Farmers Home Administration, Food and Nutrition Service, Extension Service, and ASCS. Please provide a copy of these reviews and findings for the record.

Mr. **Franke**. I can provide copies of reports of equal employment opportunity reviews for the Soil Conservation Service, the Food and Nutrition Service, and the Animal and Plant Health Inspection Service. Activity concerning the Farmers Home Administration was in connection with complaint investigations. Extension Service activity was planned, but later cancelled.

[Clerk's note.—The reports are too lengthy to be reprinted in the record. Copies will be retained in Committee files.]

ADMINISTRATIVE LAW JUDGES AND JUDICIAL OFFICER

Mr. **Whitten**. According to the table on page 2g-12 of the explanatory notes, there has been a significant increase in the number of dispositions under the animal quarantine program. Please explain for the record the reasons for the increase.

Mr. **Franke**. Public Law 97-461 authorizes the Secretary of Agriculture to assess civil penalties, after opportunity for a hearing before an Administrative Law Judge, with respect to violations of eight statutes relating to the prevention of the introduction and dissemination in the United States of plant pests, plant diseases, and livestock and poultry diseases. A vigorous enforcement program by the Animal and Plant Health Inspection Service under the civil penalty amendments, accounts for the increase in case dispositions under the animal quarantine program.

OFFICE OF THE SECRETARY, SENIOR LEVEL POSITIONS

Mr. **Whitten**. Please provide for the record the job title and brief position description of the 20 positions you show in grade ES-1 through ES-6, and the 6 positions you show in GM/GS-16 through 18.

[The information follows:]

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-1	Special Assistant to Secretary	Incumbent operates directly with the Secretary, other members of the Secretary's immediate staff and with Agency Heads of the Department. Due to nature of assignments, incumbent must share the full trust and confidence of the Secretary. Serves as the official spokesperson for the Secretary (chief spokesperson for the Department of Agriculture to both the national press and to the public).
ES-1	Deputy Assistant Secretary for Marketing and Inspection Service	Participates in making final determinations regarding objectives, goals, policies and programs with respect to the Department's marketing, inspection, and standardization related to grain; competitive marketing practices of livestock, meat and poultry, as well as meat and poultry products, marketing orders and various programs; veterinary services, plant protection and quarantine. Oversight and management responsibilities for: AMS, APHIS, FGIS, FSIS, ACS, OT, and P&SA.
ES-1	Deputy Assistant Secretary for Food and Consumer Services	Participates fully in making final determinations regarding the objectives, goals, policies and programs with respect to the Department's Food and Consumer activities. Oversight and Management responsibilities for: FNS, HNIS, and OCA.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-2	Deputy Assistant Secretary for Administration	Participates fully in the overall direction for providing and obtaining a variety of management essential to the direction and operation of the Department's missions and goals. Also participates in making final determinations in the area of Administrative management activities. Oversight and management responsibilities for: OFM, OALJ, OP, OAE, OSDBU, BCA, OO, OIRM and OMR.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-3	Deputy Under Secretary for Small Community and Rural Development	Participates fully in making final determinations regarding the objectives, goals, policies and programs with respect to the Department's Small Community and Rural Development activities and Federal Crop Insurance Programs. Oversight and management responsibilities for: FmHA, REA, and FCIC.
ES-3	Special Assistant to the Secretary	Incumbent serves as contact with the White House, Congress and all political organizations and represents the Department in all political matters concerning the Secretary's office. Has full responsibility for non-career and Schedule C personnel. His/her actions and advice can form the basis upon which Agricultural program emphasis is changed or reoriented which will affect the expenditures of public monies, result in organizational changes and similar administrative matters.
ES-3	Deputy Assistant Secretary for Natural Resources and Environment	Participates in making final determinations regarding the policies, objectives, goals, and programs, with respect to natural resources and environment. Oversight and Management responsibilities for: FS and SCS.
ES-3	Deputy Assistant Secretary for Natural Resources and Environment	Participates in making final determinations regarding the policies, objectives, goals and programs with respect to natural resources and environment. Oversight and Management responsibilities for: FS and SCS.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-3	Deputy Assistant Secretary for Governmental and Public Affairs	Participates fully in planning, formulating, directing and coordinating the legislative, intergovernmental and public affairs of the Department.
ES-3	Special Assistant to the Secretary	Assists in the planning, development, or modification of the Department's programs in an extremely broad and interrelated sense in response to the ever-changing domestic and international agricultural situation. Since the Secretary's responsibilities span the Department, an extremely broad knowledge of governmental programs and operations and administration policies is required. He/She must also possess sensitivity as to their impact on the public generally, members of Congress and other governmental agencies and instrumentalities, both Federal and State.

ES-4	Deputy Assistant Secretary for Science and Education	Participates fully in providing executive direction and leadership to the Science and Education programs. Shares responsibility for coordination and planning of food and agricultural research, extension and teaching efforts responsive to local, state, regional and national goals. Oversight and management responsibilities for: ARS, CSRS, OGPS, NAL, and ES.
ES-4	Deputy Assistant Secretary for Economics	Participates fully in providing general direction in the area of economics, statistics, and other social sciences research, analysis and information related to food, agriculture, and rural resources. Oversight and management responsibilities for: EAS, ERS, SRS, WAOB, OE and EMS.

ES-5	Deputy Assistant Secretary for Administration	The incumbent serves as Deputy Assistant Secretary for Administration and as such fully participates with the Assistant Secretary in the overall direction and operation of the Department's missions and goals. He/She participates in making final determinations regarding objectives, goals, policies and programs with respect to the Department's administrative management activities; and in integrating management service with general management of the Department.
ES-5	Special Assistant to Secretary	This position is, in effect, an extension of the Secretary's position thereby enabling the incumbent to exercise management oversight over many of the administrative and substantive program responsibilities which fall within the Secretary's area of major concern. Has authority to express Secretary's views on agricultural policy.
ES-5	Deputy Assistant Secretary for Marketing and Inspection Services	Participates in making final determinations regarding the objectives, goals, policies and programs with respect to the Department's marketing, inspection, and standardization related to grain; competitive marketing practices of livestock, meat and poultry as well as meat and poultry products, marketing orders and various programs; veterinary services, plant protection and quarantine. Oversight and management responsibilities for: AMS, APHIS, FGIS, FSIS, ACS, OT and P&SA.

ES-6	Deputy Under Secretary for International Affairs and Commodity Programs	Participates in the area of International Affairs (except for foreign economics development) and Commodity Programs. Oversight and management responsibilities for: FAS, ASCS (including CCC) and OICD.
ES-6	Deputy Under Secretary for International Affairs and Commodity Programs	Participates in the area of International Affairs (except for foreign economics development) and Commodity Programs. Oversight and management responsibilities for: FAS, ASCS (including CCC) and OICD.
ES-6	Executive Assistant to the Secretary	The incumbent shares with the Secretary the burdens and responsibilities of his office. He serves as the Secretary's alter ego when demands on the Secretary's time does not permit him to take personal action on or cognizance of problems as they arise or make necessary program and internal policy decisions which must be made without delay.

GS-18	Administrative Judge	Incumbent serves as an Administrative Judge on the Board of Contract Appeals, United States Department of Agriculture and has been designated as Chair. The Board of Contract Appeals is the agency board for the Department of Agriculture established under the Contract Disputes Act of 1978. As Chair, is responsible for the overall management of the Board, budget matters, formulation of overall course and direction of the Board's activities, establishing criteria for assignment of Judges to handle particular appeals, liaison with Administrator, OFPP, OMB, and keeping the Assistant Secretary for Administration fully informed of budget and management matters.

GS-17	Administrative Judge	Incumbent serves as an Administrative Judge on the Board of Contract Appeals, United States Department of Agriculture and has been designated as Vice Chair. As Vice Chair, acts for the Chair when the Chair is absent or unable to perform duties, and performs such additional duties of a managerial nature as may be delegated by the Chair.

GS-16	Administrative Judge (3 positions)	Incumbent(s) serve as Administrative Judge on the Board of Contract Appeals, United States Department of Agriculture As Administrative Judge, presides at formal hearings of appeals required by the Contract Disputes Act of 1978 and the regulations of the Secretary regarding other contract disputes and debarment appeals. P

SENIOR LEVEL POSITIONS

Mr. **Whitten**. Please provide for the record a job title and brief description for the 23 positions in grades ES–1 through ES–6, and the 6 positions in grades GS/16 and 17 in the Departmental Administration account.

[The information follows:]

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-1	Associate Director, Small & Disadvantaged Business Utilization Office of Advocacy and Enterprise	The Associate Director formulates operating policies and procedures to assure opportunity for full participation in the free enterprise system by socially and economically disadvantaged persons and businesses. The Office of Small and Disadvantaged Business Utilization is the focal point of contact for all activities within the purview of Section 8 and Section 15 of the Small Business Act, as amended.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-2	Director, Fort Collins Computer Center Office of Information Resources Management	Responsible for directing functions relating to systems analysis, computer software and programming, and processing of data by electronic, electromechanical, and teleprocessing equipment to provide ADP services for agencies and offices of the Department as requested.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-3	Deputy Director Office of Personnel	Shares fully with the Director the responsibility for the effective determination, application and operation of all personnel policies and programs throughout the Department.
ES-3	Associate Director (Operations) Office of Information Resources Management	Participates actively and fully with the Director and other Associate Director in planning, administering, and evaluating USDA information resources management programs. This includes participating and sharing in the responsibility in the area of ADP and telecommunications policies and systems, and liaison with key officials of such organizations and USDA agencies and staffs, Office of Management and Budget, General Services Administration, Congressional staffs, other Federal agencies, large private firms, and professional societies.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-4	Associate Director for Equal Opportunity Office of Advocacy and Enterprise	Provides leadership, policy development, coordination and direction for the Department's programs of civil rights, including program delivery, compliance and equal opportunity.
ES-4	Director, National Finance Center Office of Finance and Management	Under the direction of the Director, Office of Finance and Management, the incumbent serves as Director of the National Finance Center, New Orleans, Louisiana, and is responsible for accomplishing the missions and programs of the National Finance Center.
ES-4	Director, Kansas City Computer Center Office of Information Resources Management	The incumbent serves as Director, Kansas City Computer Center, and as such is responsible for directing functions relating to systems analysis, computer software and programming, and processing of data by electronic, electromechanical, and teleprocessing equipment to provide ADP services for agencies and offices of the Department as requested.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-4	Assistant Director for Program Development Office of Finance & Management	The Assistant Director for Program Development, Office of Finance and Management, represents the Department on all matters under his/her jurisdiction and assists the Director in providing direction, leadership, and coordination of the National Finance Center. The incumbent has responsibility for coordinating work efforts within the Office of the Director as they relate to program development activities for NFC.
ES-4	Deputy Director for Personal Property, Mail and Reproduction Office of Operations	Assists the Director of Operations on matters pertaining to personal property, reproduction and mail management. Specific responsibility includes the direction, leadership and coordination of personal property, mail and reproduction activities throughout the Department, the development and issuance of Department policies and procedures covering these activities, and for assuring that such activities are carried out in a responsive, efficient and cost effective manner.
ES-4	Deputy Director for Executive Services, Facilities & Procurement Management Office of Operations	The Deputy Director shares complete responsibility with the Director for representing the Department on all matters under Office of Operations' jurisdiction and is responsible for direction, leadership, and coordination of these activities throughout the Department, including development and issuance of Department policies and procedures.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-4	Associate Director (Policy) Office of Information Resources Management	Participates actively and fully with the Director and other Associate Director in planning, administering, and evaluating USDA information resources management programs. This includes participating and sharing in the responsibility in the area of ADP and telecommunications policies and systems, and liaison with key officials of such organizations as USDA agencies and staffs, Office of Management and Budget, General Services Administration, Congressional staffs, other Federal agencies, large private firms and professional societies.
ES-4	Director, Washington Computer Center Office of Information Resources Management	Serves as Director, Washington Computer Center, and as such is responsible for directing functions relating to systems analysis, computer software and programming, processing of data by electronic, electromechanical, and teleprocessing equipment to provide ADP services for agencies and offices of the Department as requested.
ES-4	Deputy Director, Program Analysis Office of Budget and Program Analysis	Directs, coordinates and provides leadership for the development and in-depth analysis of alternative feasible policies and program strategies for achieving USDA goals and objectives, including the review and analysis of resource and legislative proposals, regulatory actions and related impact statements, and agency studies relating to policy requests of the President, Office of Management and Budget, Congress or Committees of Congress, the Secretary, Deputy Secretary, Under/Assistant Secretaries and other top policy officials of the Department.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-5	Director of Personnel	The Director of Personnel is the agent and representative of the Department for carrying out Departmentwide responsibility relating to the overall general direction of the policies, programs and functions in the field of personnel and as advisor and consultant to the Secretary, Deputy Secretary, Under/Assistant Secretaries, group leaders, USDA Agency Heads and their personnel officials.
ES-5	Associate Director for Policy Analysis, Renewable Resource Programs Office of Budget and Program Analysis	Serves as Associate Director for Policy Analysis, Renewable Resources Programs and Special Studies and shares fully with the Director of Budget and Program Analysis the responsibility for providing leadership in carrying out Departmentwide responsibilities in policy analysis for the assigned programs.
ES-5	Director, Office of Advocacy and Enterprise	The Director, Office of Advocacy and Enterprise serves as the principal advisor to the Secretary and Assistant Secretary for administration on all matters relating to EO, civil rights and small and disadvantaged business programs. The incumbent provides centralized Departmentwide leadership in planning, administering and evaluating those programs and activities of USDA and its agencies in both Federally assisted and USDA administered programs.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-5	Director, Office of Information Resources Management	Responsible for providing Departmentwide leadership in planning, administering, and evaluating USDA information resources management programs. This includes responsibility in the area of ADP and telecommunications policies and systems and liaison with key officials of USDA agencies and staffs as well as the Office of Management and Budget, the General Services Administration, and other Federal agencies.
ES-5	Deputy Director, Office of Finance & Management	The Deputy shares all responsibilities for directing and coordinating functions assigned to the Office of Finance and Management.
ES-5	Director, Office of Operations	The Director represents the Department on all matters under Office of Operations' jurisdiction and is responsible for direction, leadership, and coordination of these activities throughout the Department, including development and issuance of Department policies and procedures relating to procurement, mail, real property, personal property, supply, internal energy, and fleet management.
ES-5	Associate Director for Budget, Legislation and Program Review Office of Budget and Program Analysis	The Associate Director for Budget, Legislation and Program Review is responsible for reviewing, evaluating, and advising top USDA policy officials on the impact of new Departmental program initiatives as related to funding levels, justifications of requests for the program and funding alternatives.
ES-5	Deputy Director, Budget, Legislative & Regulatory Systems Office of Budget and Program Analysis	Provides leadership in developing and implementing effective policies and systems for the formulation, presentation, and execution of budgetary and legislative proposals; including liaison with the National Finance Center on accounting operations as they relate to the budget; and the development of necessary automated techniques.

ES LEVEL	POSITION TITLE	JOB DESCRIPTION
ES-6	Director, Office of Budget and Program Analysis	Serves as the Director of the Office of Budget and Program Analysis and has responsibility for providing leadership in carrying out Departmentwide responsibilities in the policy analysis program review, budget, legislative, and financial reporting area.
ES-6	Director, Office of Finance & Management	Provides Departmental leadership in development and evaluation of programs in finance, accounting, federal assistance and occupational safety and health.

LEVEL	POSITION TITLE	JOB DESCRIPTION
GS-16	Chief Administrative Law Judge	Serves as Chief Administrative Law Judge and conducts exceptionally difficult and important hearings under the various laws administered by the Department of Agriculture covering market manipulations, rates, reparations, disciplinary actions, and other regulatory proceedings which involve exceptionally complex, legal, economic, financial and technical questions of law.
GS-16	Administrative Law Judge (4 positions)	Incumbent(s) conduct exceptionally difficult and important hearings under the various laws administered by the Department of Agriculture covering market manipulations, rates, reparations, disciplinary actions, and other regulatory proceedings which involve exceptionally complex, legal, economic, financial and technical questions of law.

LEVEL	POSITION TITLE	JOB DESCRIPTION
GS-17	Judicial Officer	As Judicial Officer of the Department, independently renders decisions in the name of the Secretary on an unusually wide range of complex and unprecedented quasi-judicial matters arising out of the administration of regulatory laws by the Department including disciplinary, rate-making, reparation, and other types of proceedings.

RECEPTION AND REPRESENTATION FUND

Mr. **Whitten**. How have you used the Secretary's reception and representation account in 1985 and to date in 1986?

[The information follows:]

OBLIGATIONS FOR RECEPTION AND REPRESENTATION

Item/description	1985 actual	1986 through March 31
Receptions or meetings with members of Congress, farm leaders, and/or the press	$2,938	$1,533
Receptions or meetings with miscellaneous Task Forces or meetings relating to special activities, e.g., Combined Federal Campaign	2,684	1,189
Miscellaneous costs for coffee, supplies, services of a band for receptions and meetings	2,187	1,012
Total costs	7,809	3,734

OTHER SERVICES

Mr. **Whitten**. Please provide for the record a sub-object class display for Departmental Administration expenditures for other services.

[The information follows:]

DEPARTMENTAL ADMINISTRATION—OBLIGATIONS IN OBJECT CLASS 2500 (OTHER SERVICES) FY 1985, FY 1986 AND FY 1987

Subobject code	Description	FY 1985 actual	FY 1986 estimate	FY 1987 estimate
2510	Contractual services performed by other Federal agencies; excluding GSA rental and FTS charges.	$277,222	$399,160	$369,076
2520	Personnel-related expenditures	255,965	276,865	258,953
2530	Repair, alteration or maintenance of equipment or structures	396,598	525,790	454,418
2540	Contractual services other, e.g., flying contracts, spraying, architectural and engineering, research, commercial ADP services.	40,421	59,121	92,989
2550	Agreements, e.g., cooperative agreements between Forest Service, state agencies or private parties.	1,239	1,363	1,898
2560	ADP processing services and supplies provided by USDA Data Centers & NFC.	155,372	170,909	192,089
2570	Miscellaneous services, e.g., publication notices advertising A–76, contractual services, GSA motor pool.	561,068	707,665	706,448
2580	Fees, e.g., money order fees, bank services fees, participatory fees.	115	127	129
	Total	1,688,000	2,141,000	2,076,000

IDEA WEEK

Mr. **Whitten**. What were the results of "Idea Week" which you held last December?

Mr. **Franke**. Our second "USDA Idea Week," in October 1985, brought in more than 1,600 ideas from employees around the country.

The ideas covered a wide variety of subjects. About one-quarter concerned program operations; many of these were very specific and technical. For example, one employee proposed a combination node hood and sharpening steel for use by meat inspectors. A Forest Service employee sent in drawings of a low-cost range watering trough. Many employees proposed revisions to forms used by field employees or by farmers who are served by our programs. I am pleased to tell you that almost all these ideas suggested simplifying forms, rather than increasing paperwork. Half the ideas concerned support functions and procedures, personnel, budget and finance, and general administrative services at either the agency or Departmental level.

Many of the ideas were informational—the employee wanted to share a thought or concern or express an opinion. We welcome these "ideas" as an opportunity to start and maintain a dialogue between management here in Washington and employees in the field where the work is being done. One of the original purposes of Idea Week was to improve communications in the Department and allow a wider range of input from all organizational levels. We continue to believe that increased employee morale and "quality of worklife" results in increased productivity.

In 1986, we intend to use our Idea Week experience to streamline and improve the formal suggestion program. We want to increase the quantity and quality of employee suggestions all year-round in order to provide needed services to the public at lower cost.

USDA OVERHEAD COST

Mr. WHITTEN. What information can you provide to compare USDA's overhead cost with those of other Departments?

Mr. FRANKE. I will provide a table comparing those costs.

[The information follows:]

NOTE.—The table below compares the cost of general management and administration, the public affairs function, the legal function, the audit and inspection function, adjudication, and Departmental working capital fund activities.

COMPARISON OF OVERHEAD COSTS IN SELECTED FEDERAL DEPARTMENTS

Department	Total budget authority (in millions)	FTE Ceiling	Overhead requested (in millions)	Overhead as a percent of total BA	Overhead cost per FTE (actual dollars)
Treasury	$190,315	129,587	$57	0.0300	$440
Interior	3,917	70,305	78	1.9913	1,109
Agriculture	45,785	98,500	232	0.5067	2,355
Transportation	21,746	58,981	154	0.7082	2,611
Commerce	1,769	33,830	93	5.2572	2,749
Justice	4,308	65,820	253	5.8728	3,844
Labor	28,502	18,155	207	0.7263	11,402
Energy	10,253	15,721	280	2.7309	17,811
State	4,866	26,937	569	11.6933	21,123
Education	15,218	4,500	105	0.6900	23,333
HUD	5,535	11,288	350	6.3234	31,006

Source: Appendix to the Budget of the United States Government, Fiscal Year 1987.

USDA DECISION CALENDAR

Mr. WHITTEN. Please submit for the record a copy of the most recently published USDA Decision Calendar.

Mr. **Franke**. I will be happy to. The Decision Calendar is now known as the Semiannual Regulatory Agenda.

[The information follows:]

federal register

Tuesday
October 29, 1985

Part III

Department of Agriculture

Semiannual Regulatory Agenda

59-944 O—86——4

DEPARTMENT OF AGRICULTURE

Office of the Secretary

7 CFR Subtitle A, Chs. I-VII, IX-XII, XIV-XVIII, XXI, XXIV-XXIX

9 CFR Chs. I-IV

36 CFR Ch. II

41 CFR Ch. 4

Semiannual Regulatory Agenda: Fall 1985

AGENCY: Office of the Secretary, Department of Agriculture.

ACTION: Semiannual regulatory agenda.

SUMMARY: This agenda provides summary descriptions of major and nonmajor regulations being developed in agencies of the U.S. Department of Agriculture in conformance with Executive Order 12291, Federal Regulation. The agenda also describes regulations affecting small entities as required by section 602 of the Regulatory Flexibility Act, Pub. L. 96-354.

USDA has attempted to list all regulations and regulatory reviews pending at the time of publication except for minor and routine or repetitive actions; but some may have been inadvertently missed. There is no legal significance to the omission of an item from this listing. Also, the dates shown for the steps of each action are estimated and are not commitments to act on or by the date shown.

FOR FURTHER INFORMATION CONTACT: For further information on any specific entry shown in this agenda, please contact the person listed for that action.

ADDRESS: Requests for copies of the Agenda should include a self-addressed, stamped envelope and be directed to: Regulatory Agenda, OBPA, Office of the Secretary, Room 148-E, U.S. Department of Agriculture, Washington, D.C. 20250, (202) 382-1276.

DATED: September 13, 1985.

John R. Block,

Secretary.

Agricultural Marketing Service—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
1	Mohair Standards	0581-AA06
2	Wool Standards	0581-AA12
3	Plant Variety Protection Board Meeting	0581-AA17
4	Establishment of User Fees for Cotton Market News Service	0581-AA16
5	Fees for Service for Voluntary and Mandatory Programs	0581-AA18
6	Review: Voluntary Grading of Poultry Products and Rabbit Products	0581-AA21
7	Milk Marketing Orders	0581-AA25

Agricultural Marketing Service—Existing Regulations Under Review

Sequence Number	Title	Regulation Identifier Number
8	Review: Mandatory Inspection of Eggs and Egg Products	0581-AA22
9	Review: Grading of Shell Eggs	0581-AA23
10	Review: Voluntary Inspection and Grading of Egg Products	0581-AA24
11	Proposed Regulations for Fruits, Vegetables and Related Commodities as Authorized by Federal Marketing Orders	0581-AA26

Agricultural Marketing Service—Completed Actions

Sequence Number	Title	Regulation Identifier Number
12	Cotton Research and Promotion	0581-AA09
13	Revision of the Official Grade Standards for American Pima Cotton	0581-AA27

Agricultural Stabilization and Conservation Service—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
14	Standards for the Approval of Dry and Cold Storage Warehouses for Processed Agricultural Commodities, Extracted Honey, and Bulk Oils	0560-AA15
15	Poundage Quota and Marketing Regulations for the 1983 Through 1985 Crops of Peanuts (Amendment 1)	0560-AA29
16	National Average Loan Rates for 1985-Crop Quota and Additional Peanuts and Minimum Commodity Credit Corporation (CCC) Export Edible Sales Price for Additional Loan Peanuts	0560-AA31
17	1985 Price Support Level for Honey	0560-AA32
18	Commodity Credit Corporation (CCC) Claims Regulations	0560-AA38
19	1985 Price Support Levels for All Kinds of Tobacco	0560-AA39
20	Fees for Voluntary Examinations	0560-AA45
21	1985 Sugar Beet and Sugarcane Loan Rates	0560-AA49
22	Regs. Relating to the Referral of Delinquent Debts to Credit Reporting Agencies	0560-AA50
23	1985-86 Milk Price Support Program (effective 10/1/85)	0560-AA51
24	1986 Wheat Program Regulations	0563-AA59

Agricultural Stabilization and Conservation Service—Completed Actions

Sequence Number	Title	Regulation Identifier Number
25	Standards for Approval of Warehouses for Cotton or Cotton Linters	0560-AA14
26	Standards for Approval of Warehouses of Grain, Rice, Dry Edible Beans, and Seed	0560-AA17
27	1985-Crop Peanut Price Support Program Differentials	0560-AA22
28	General Regulations Governing 1982 Through 1985 Crops Peanut Warehouse Storage Loans and Handler Operations (Amendment 3)	0560-AA27
29	1985 Wool and Mohair Incentive Payment Program	0560-AA28
30	1984-85 Milk Price Support Program - Notice of Price Support Level (effective 4/1/85)	0560-AA36
31	Minor Kinds Tobacco Marketing Quotas – 1985 Crop	0560-AA44
32	1984-85 Milk Price Support Program - Notice of Price Support Level (effective 7/1/85)	0560-AA48
33	Determination of a National Marketing Quota and Acreage Allotment for the 1986/87 Wheat Marketing Year and the Conducting of a Producer Referendum	0560-AA52
34	Special Producer Storage Loan Program	0560-AA57

Animal and Plant Health Inspection Service—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
35	Revision of 7 CFR 319.56 - Fruits and Vegetables	0579-AA12

Farmers Home Administration—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
36	Suspension and Debarment Regulations	0575-AA02
37	Revision of FmHA Instruction 1944-A, "Section 502 Rural Housing Loan Policies, Procedures and Authorizations," to Implement the Requirements of the Rural Housing Amendments of 1983	0575-AA21
38	Mobile/Manufactured Housing Parks/Communities for Rental Purposes	0575-AA08
39	Special Debt Set-Aside of a Portion of the Indebtedness of Farmer Program Borrowers	0575-AA10
40	Revisions to Regulations Mandated by 1983 Housing Amendments (P.L. 98-181)	0575-AA20
41	FmHA Guarantees of Commercial Lender's Farm Ownership (FO) and Operating Loans (OL) with Accompanying Lender Principal Write Down and/or Interest Rate Reduction	0575-AA22

Farmers Home Administration—Completed Actions

Sequence Number	Title	Regulation Identifier Number
42	Property Management	0575-AA53
43	Development Grants for Community Domestic Water and Waste Disposal System	0575-AA08
44	FmHA Guarantees of Commercial Lenders' Farm Ownership (FO) and Operating Loans (OL) with Accompanying Lender "Write-Down"	0575-AA09

Federal Grain Inspection Service—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
45	Kinds of Official Services	0580-AA02
46	Recordkeeping and Access to Facilities	0580-AA05

Federal Grain Inspection Service—Completed Actions

Sequence Number	Title	Regulation Identifier Number
47	Fees for Official Services Performed by Official Agencies	0580-AA01
48	Licenses and Authorizations	0580-AA06
49	Official Records and Forms	0580-AA07

Food and Nutrition Service—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
50	OBRA 1982	0584-AA04
51	Issuance Loss Liability	0584-AA05
52	Food Distribution Program	0584-AA07
53	Food Distribution Program on Indian Reservations	0584-AA09
54	Food Stamp Program: Revision of Parts 271, 272, 273 and 274	0584-AA10
55	Temporary Emergency Food Assistance Program For Fiscal Years 1984 and 1985	0584-AA18
56	Food Stamp Program: Reimbursing Workfare's Administrative Costs	0584-AA20
57	Emergency Food Assistance for Victims of Disasters	0584-AA24
58	Extension of the National Commodity Processing Program	0584-AA26
59	Audit Requirements in the Child Care Food Program	0584-AA30
60	Rewrite of Regulations on Determining Eligibility for Free and Reduced Price Benefits	0584-AA32
61	NSLP Verification Monitoring/and AIMS	0584-AA33
62	Management Evaluations and Corrective Action Plans	0584-AA37
63	Forfeiture Procedures/Bonding	0584-AA40
64	Rewrite of National School Lunch Program Regulations	0584-AA43
65	Administrative Review Process Arbitration	0584-AA46
66	Food Stamp Program: TFP/Deduction Update	0584-AA51
67	Food Stamp Program: Conformance with AFDC Rules	0584-AA52
68	Food Stamp Program: Deficit Reduction Act	0584-AA53
69	Meat Alternates Used in Child Nutrition Programs	0584-AA56

Food and Nutrition Service—Completed Actions

Sequence Number	Title	Regulation Identifier Number
70	Food Stamp Program: Waiver Simplification/MRRS Amendments	0584-AA02
71	Alaska Thrifty Food Plan	0584-AA16
72	Amendments to Requirements for State Agency Reporting	0584-AA18
73	Miscellaneous Amendments - Child Care Food Program	0584-AA28
74	Competitive Foods	0584-AA39
75	Documentation and Verification of Eligibility in the Child Care Food Program	0584-AA49
76	Proposed Rule Concerning State Processing of USDA-Donated Foods	0584-AA50

Food Safety and Inspection Service—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
77	Pizza Standard (79-733)	0583-AA07
78	Canning of Meat and Poultry Products	0583-AA08
79	Definitions and Standards for Cooked Poultry Sausage	0583-AA10
80	Protein Requirements for Turkey Ham	0583-AA11
81	Barbeque Standard	0583-AA12
82	Requirements Regarding Poultry Products Made by Mechanical Deboning	0583-AA15
83	Extension of Operating Schedules for Total Quality Control Plants	0583-AA16

Food Safety and Inspection Service—Existing Regulations Under Review

Sequence Number	Title	Regulation Identifier Number
84	Records, Registration, and Reports	0583-AA00
85	Administrative Regulations	0583-AA02
86	Red Meat Slaughter Regulations	0583-AA03
87	Label Approval Regulations	0583-AA05
88	Transportation	0583-AA19

Food Safety and Inspection Service—Completed Actions

Sequence Number	Title	Regulation Identifier Number
89	Imported Cured Pork Products	0583-AA09
90	Poultry Slaughter Regulations	0583-AA18

Foreign Agricultural Service—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
91	Revision of 7 CFR Part 6, Section 22 Import Quotas; Certain Dairy Products	0551-AA02
92	Revision of Public Law 480 Regulations, 7 CFR, Sections 17.1 through 17.8 and 17.18	0551-AA04
93	Revision of Public Law 480 Regulations, 7 CFR Sections 17.5, 17.8 and 17.9	0551-AA05
94	Quarterly Sugar Import Fee Determination	0551-AA06
95	African Food Assistance Program	0551-AA07
96	U.S. Meat Imports	0551-AA09
97	Amendment to 7 CFR Part 6, Section 22 Import Quotas; Certain Dairy Products	0551-AA11
98	Emergency Relief from Certain Perishable Products Imported from Israel	0551-AA12

Foreign Agricultural Service—Current and Projected Rulemakings—Continued

Sequence Number	Title	Regulation Identifier Number
99	Review of the United States Sugar Import Quota System	0551-AA13
100	Export Enhancement Program	0551-AA15
101	Import Limitation: Country of Origin Quota Adjustment	0551-AA16

Foreign Agricultural Service—Completed Actions

Sequence Number	Title	Regulation Identifier Number
102	Within Quarter Sugar Import Fee Adjustment	0551-AA14

Forest Service—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
103	Debarment and Suspension of Timber Sale Contractors	0596-AA09
104	Recovery of Federal Costs Associated with User Reservation Systems on Some National Forest Recreation Areas	0596-AA16
105	Revision of Advertisements for Sale of National Forest Timber	0596-AA18
106	Administration of Cooperative or Federal Sustained Yield Units	0596-AA19
107	Special Uses of National Forest System Lands	0596-AA20
108	Exercise of Timber, Mineral and Water Rights, of Rights-of-Way, and of Rights to Use and Occupy Lands Conveyed to the U.S.	0596-AA21
109	Management of Municipal Watersheds	0596-AA22
110	Land Status and Title Records	0596-AA24
111	Cash Down Payments, Periodic Payments for National Forest Timber Contracts	0596-AA29
112	Add Section to 36 CFR 251.53 - Special Uses to Include Alaska National Interest Land and Conservation Act as an Authority and Add Regulation 36 CFR 251.70 on Ingress and Egress to ETC	0596-AA31
113	Periodic Payments for National Forest Timber Sale Contracts	0596-AA33

Forest Service—Existing Regulations Under Review

Sequence Number	Title	Regulation Identifier Number
114	Range Management-Grazing and Livestock Use and Management of Wild-Free-Roaming Horses and Burros	0596-AA14
115	Entrance into Petersburg Watershed	0596-AA23
116	Young Adult Conservation Corps	0596-AA28
117	Experimental Areas and Research Natural Areas	0596-AA30
118	Youth Conservation Corps	0596-AA32

Forest Service—Completed Actions

Sequence Number	Title	Regulation Identifier Number
119	Sale of Lands Pursuant to Section 10 of the Act Approved March 1, 1911	0596-AA04
120	Sale of National Forest Townsites to Government Entities	0596-AA06
121	To Require (Disqualified) High Bidders on Timber Sale Contracts, to Reimburse the Forest Service for the Administrative Costs Incurred in Readvertising the Sale	0596-AA27
122	Administration of the Forest Development Transportation System	0596-AA00
123	Locatable Minerals	0596-AA01

Forest Service—Completed Actions—Continued

Sequence Number	Title	Regulation Identifier Number
124	Use of Motor Vehicles Off Forest Development Roads	0596-AA05

Office of Finance and Management—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
125	Amend USDA Uniform Federal Assistance Regulations	0505-AA01
126	Amend USDA Uniform Federal Assistance Regulations, 7 CFR 3015, Subpart I, Audits	0505-AA03
127	Amend USDA Uniform Federal Assistance Regulations, 7 CFR 3015 Subpart Q, Application for Federal Assistance	0505-AA04

Office of the Secretary—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
128	Rescind Uniform Relocation Regulations	0503-AA02

Office of the Secretary—Completed Actions

Sequence Number	Title	Regulation Identifier Number
129	Acquisition Regulation	0503-AA01

Rural Electrification Administration—Completed Actions

Sequence Number	Title	Regulation Identifier Number
130	REA Bulletin 320-23, Construction Certification Procedures for Designated Telephone Borrowers	0572-AA04
131	REA Bulletin 50-1, Electric Transmission Specifications and Drawings (T-805)	0572-AA06
132	REA Bulletin 50-4, Specifications and Drawings for 34.5/19.9 kV Distribution Line Construction (D-801)	0572-AA13
133	REA Bulletin 345-67, REA Specification for Filled Telephone Cable (PE-39)	0572-AA05
134	REA Bulletin 345-76, REA Specification for Spring Action Type Bonding Connectors Within Buried Plant Housings (PE-87)	0572-AA07
135	REA Bulletin 345-6, REA Standard for Splicing Plastic-Insulated Cables (PC-2)	0572-AA08
136	REA Bulletin 345-22, REA Specification for Voice Frequency Loading Coils (PE-26)	0572-AA09
137	REA Bulletin 345-65, REA Specification for Cable Shield Bonding Connectors (PE-33)	0572-AA10
138	REA Bulletin 345-72, REA Specification for Filled Splice Enclosures (PE-74)	0572-AA15

Soil Conservation Service—Current and Projected Rulemakings

Sequence Number	Title	Regulation Identifier Number
139	Soil Surveys	0578-AA09
140	Prime and Unique Farmlands	0578-AA10

Soil Conservation Service—Existing Regulations Under Review

Sequence Number	Title	Regulation Identifier Number
141	Snow Surveys and Water Supply Forecasts	0578-AA01
142	Relocation Assistance	0578-AA12

Soil Conservation Service—Completed Actions

Sequence Number	Title	Regulation Identifier Number
143	Acquisition of Real Property Under Federally Assisted Programs	0578-AA09
144	Long Term Contracting	0578-AA03

DEPARTMENT OF AGRICULTURE (USDA)

Agricultural Marketing Service (AMS)

Current and Projected Rulemakings

1. MOHAIR STANDARDS

Legal Authority: Agricultural Marketing Act of 1946; 60 Stat. 1087 to 1091; 7 USC 1621 et seq

CFR Citation: 7 CFR 32

Abstract: Combine grade standards for mohair and mohair top into one standard. (AMS 84-014)

Timetable:

Action	Date	FR Cite
NPRM	12/00/85	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581-AA06

2. WOOL STANDARDS

Legal Authority: 7 USC 1621 et seq; 7 USC 1622; 7 USC 1624; 29 FR 16210; 30 FR 1260, as amended; 30 FR 2180

CFR Citation: 7 CFR 31

Abstract: Combine grade standards for grease wool and wool top into one standard. (AMS 84-016)

Timetable:

Action	Date	FR Cite
NPRM	10/00/85	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581-AA12

3. PLANT VARIETY PROTECTION BOARD MEETING

Legal Authority: 7 USC 2330

CFR Citation: 7 CFR 180.2

Abstract: The Plant Variety Protection Board may meet one or more times in 1985 to advise the Secretary on administration of the PVP Act and to advise the Secretary on any appeals of the Commissioner's decisions. (AMS 84-010)

Timetable:

Action	Date	FR Cite
Final Action	12/00/85	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581-AA17

4. ESTABLISHMENT OF USER FEES FOR COTTON MARKET NEWS SERVICE

Legal Authority: 7 USC 471 to 476

CFR Citation: 7 CFR 28

Abstract: To establish fees to recover costs of postage, reproduction and handling of cotton market news reports requested by mail by the general public. (AMS 84-009)

Timetable:

Action	Date	FR Cite
NPRM	08/01/84	
Final Action	00/00/00	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581-AA16

5. FEES FOR SERVICE FOR VOLUNTARY AND MANDATORY PROGRAMS

Legal Authority: 7 USC 1621 to 1627; Agricultural Marketing Act of 1946; 21 USC 1031 to 1056; Egg Products Inspection Act; 7 USC 51 et seq Cotton Standards Act

CFR Citation: 7 CFR 26 to 209

Abstract: Fees for the voluntary inspection, grading and classing of agricultural commodities and certain mandatory inspection rates are reviewed periodically and changes are made to reflect cost of providing the service. (AMS 84-006)

Timetable:

Action	Date	FR Cite
NPRM	12/00/85	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581–AA19

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6. REVIEW: VOLUNTARY GRADING OF POULTRY PRODUCTS AND RABBIT PRODUCTS

Legal Authority: 7 USC 1621 to 1627; Agricultural Marketing Act of 1946

CFR Citation: 7 CFR 70

Abstract: This regulation describes the basis, requirements, and administration of the voluntary grading service for poultry products and rabbit products and U.S. classes, standards and grades. (AMS 85-015)

Timetable:

Action	Date	FR Cite
Begin Review	01/00/85	
End Review	08/24/85	
NPRM	08/00/85	
Final Action	01/00/86	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581–AA21

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7. MILK MARKETING ORDERS

Legal Authority: 7 USC 601 to 674

CFR Citation: 7 CFR 1000 to 1199

Abstract: Specific actions unknown. As industry problems develop, actions will be requested by the industry. USDA-AMS will respond, where warranted, through formal or informal rulemaking proceedings as appropriate. (AMS 85-018)

Timetable:

Action	Date	FR Cite
NPRM	00/00/00	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581–AA25

DEPARTMENT OF AGRICULTURE (USDA)

Agricultural Marketing Service (AMS)

Existing Regulations Under Review

8. REVIEW: MANDATORY INSPECTION OF EGGS AND EGG PRODUCTS

Legal Authority: 21 USC 1031 to 1056; Egg Products Inspection Act

CFR Citation: 7 CFR 59

Abstract: This regulation describes the basis, requirements, and administration of the mandatory inspection program for eggs and egg products. (AMS 85-014)

Timetable:

Action	Date	FR Cite
Begin Review	01/00/85	
End Review	11/01/85	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581–AA22

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9. REVIEW: GRADING OF SHELL EGGS

Legal Authority: 7 USC 1621 to 1627; Agricultural Marketing Act of 1946

CFR Citation: 7 CFR 56

Abstract: This regulation describes the basis, requirements, and administration of the service for grading shell eggs and U.S. standards, grades, and weight classes. (AMS 85-013)

Timetable:

Action	Date	FR Cite
Begin Review	01/00/85	
End Review	11/01/85	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581–AA23

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10. REVIEW: VOLUNTARY INSPECTION AND GRADING OF EGG PRODUCTS

Legal Authority: 7 USC 1621 to 1627 Agricultural Marketing Act of 1946

CFR Citation: 7 CFR 55

Abstract: This regulation describes the basis, requirements, and administration of voluntary inspection and grading services for egg products. (AMS 85-012)

Timetable:

Action	Date	FR Cite
Begin Review	01/00/85	
End Review	11/01/85	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581–AA24

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11. PROPOSED REGULATIONS FOR FRUITS, VEGETABLES AND RELATED COMMODITIES AS AUTHORIZED BY FEDERAL MARKETING ORDERS

Legal Authority: 7 USC 601 et seq; Agricultural Marketing Agreement Act of 1937, as amended

CFR Citation: 7 CFR 900 to 999

Abstract: The objective of proposed regulations is to provide for orderly marketing of specific commodities through such means as control of quality, quantity, containers, research and development; as may be authorized by the applicable individual marketing order.

Proposed regulations as authorized, as well as new orders and amendments to existing orders are anticipated throughout the year, but cannot be specifically identified at this point. (AMS 86-017)

Timetable:

Action	Date	FR Cite
End Review	00/00/00	

Small Entity: No

Agency Contact: Harold S. Ricker, Reg. Review Staff, MRD, Department of Agriculture, Agricultural Marketing Service, Room 3525-S, Washington, DC 20250, 202 447-2784

RIN: 0581-AA28

DEPARTMENT OF AGRICULTURE (USDA)

Agricultural Marketing Service (AMS)

Completed Actions

COMPLETED RULEMAKINGS

12. COTTON RESEARCH AND PROMOTION

CFR Citation: 7 CFR 1205

Completed:

Reason	Date	FR Cite
Final Action	03/19/85	50 FR 10929

Small Entity: No

Agency Contact: Harold S. Ricker 202 447-2784

RIN: 0581-AA06

13. REVISION OF THE OFFICIAL GRADE STANDARDS FOR AMERICAN PIMA COTTON

CFR Citation: 7 CFR 28

Completed:

Reason	Date	FR Cite
Final Action	06/18/85	50 FR 25197

Small Entity: No

Agency Contact: Harold S. Ricker 202 447-2784

RIN: 0581-AA27

[FR Doc. 85-[illegible] Filed 10-28-85 8:45 am]

BILLING CODE 3410-01-T

DEPARTMENT OF AGRICULTURE (USDA)

Agricultural Stabilization and Conservation Service (ASCS)

Current and Projected Rulemakings

14. STANDARDS FOR THE APPROVAL OF DRY AND COLD STORAGE WAREHOUSES FOR PROCESSED AGRICULTURAL COMMODITIES, EXTRACTED HONEY, AND BULK OILS

Legal Authority: 7 USC 714 Commodity Credit Corporation Charter Act

CFR Citation: 7 CFR 1423

Abstract: The Commodity Credit Corporation (CCC) Charter Act states that in carrying out CCC's purchasing and selling operations, and in the warehousing, transporting, processing and handling of agricultural commodities, CCC is to use the customary channels, facilities and arrangements of trade and commerce. Accordingly, CCC has set forth standards which must be met by a warehouseman before CCC will enter a contract. This action will revise part of the policy followed in approving warehouses for storage and handling of commodities under CCC programs. (ASCS 84-033)

Timetable:

Action	Date	FR Cite
NPRM	05/06/85	50 FR 19026
Final Action	09/03/85	

Small Entity: No

Agency Contact: Tom Witzig, Department of Agriculture, Agricultural Stabilization and Conservation Service, Room 3728-S, P.O. Box 2415, Washington, DC 20013, 202 475-4636

RIN: 0560-AA15

15. POUNDAGE QUOTA AND MARKETING REGULATIONS FOR THE 1983 THROUGH 1985 CROPS OF PEANUTS (AMENDMENT 1)

Legal Authority: Ag Adjustment Act of 1938, as amended; Agricultural Act of 1949, as amended

CFR Citation: 7 CFR 729

Abstract: Consider setting the maximum moisture content of peanuts (without discount) at 7 percent for all peanuts regardless of area of production. (ASCS 84-021)

Timetable:

Action	Date	FR Cite
Interim Final Rule	11/13/84	49 FR 44889
Final Action	06/07/85	

Small Entity: No

Agency Contact: Tom Witzig, Department of Agriculture, Agricultural Stabilization and Conservation Service, Room 3728-S, P.O. Box 2415, Washington, DC 20013, 202 475-4836

RIN: 0560-AA29

16. NATIONAL AVERAGE LOAN RATES FOR 1985-CROP QUOTA AND ADDITIONAL PEANUTS AND MINIMUM COMMODITY CREDIT CORPORATION (CCC) EXPORT EDIBLE SALES PRICE FOR ADDITIONAL LOAN PEANUTS

Legal Authority: Ag Adjustment Act of 1938, as amended; CCC Charter Act of 1948, as amended; Ag Act of 1949, as amended

CFR Citation: 7 CFR 729; 7 CFR 1446

Abstract: The object of this action is to set loan levels to support farm income and stabilize prices. The CCC export edible sales price minimizes CCC net outlays and maximizes returns to growers of additional peanuts. (ASCS 84-013)

Timetable:

Action	Date	FR Cite
NPRM	12/12/84	49 FR 48344
Announcement - Statutory	02/14/85	
Final Action	06/21/85	

Small Entity: No

Agency Contact: Tom Witzig,
Department of Agriculture, Agricultural Stabilization and Conservation Service,
Room 3726-S, P.O. Box 2415,
Washington, DC 20013, 202 475-4636

RIN: 0560-AA31

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17. 1985 PRICE SUPPORT LEVEL FOR HONEY

Legal Authority: 7 USC 1446 Ag Act of 1949, Sec 201, as amended

CFR Citation: 7 CFR 1434

Abstract: The Agricultural Act of 1949, as amended, requires that the price of honey be supported at not less than 60 percent nor more than 90 percent of parity. (ASCS 84-017)

Timetable:

Action	Date	FR Cite
NPRM	02/22/85	50 FR 7359
Announcement	03/29/85	
Final Action	09/30/86	

Small Entity: No

Agency Contact: Tom Witzig,
Department of Agriculture, Agricultural Stabilization and Conservation Service,
Room 3726-S, P.O. Box 2415,
Washington, DC 20013, 202 475-4636

RIN: 0560-AA32

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18. COMMODITY CREDIT CORPORATION (CCC) CLAIMS REGULATIONS

Legal Authority: 15 USC 714(k) Commodity Credit Corporation Charter Act

CFR Citation: 7 CFR 1403

Abstract: Regulations will revise policy, authorities, procedures, and responsibilities for settling claims by and against CCC. (ASCS 84-034)

Timetable:

Action	Date	FR Cite
NPRM	12/02/85	
Final Action	02/28/86	

Small Entity: No

Agency Contact: Tom Witzig,
Department of Agriculture, Agricultural Stabilization and Conservation Service,
Room 3726-S, P.O. Box 2415,
Washington, DC 20013, 202 475-4636

RIN: 0560-AA38

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19. 1985 PRICE SUPPORT LEVELS FOR ALL KINDS OF TOBACCO

Legal Authority: 7 USC 1445 Ag Act of 1949, Sec 106, as amended

CFR Citation: 7 CFR 1464

Abstract: The object of this proposal is to stabilize tobacco prices. (ASCS 84-011)

Timetable:

Action	Date	FR Cite
Announcement Flue-Cured	02/28/85	
NPRM	04/17/85	50 FR 15200
Final Action Flue-Cured	04/17/85	50 FR 15202
Final Action Other	09/30/86	

Small Entity: No

Agency Contact: Tom Witzig,
Department of Agriculture, Agricultural Stabilization and Conservation Service,
Room 3726-S, P.O. Box 2415,
Washington, DC 20013, 202 475-4636

RIN: 0560-AA39

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20. FEES FOR VOLUNTARY EXAMINATIONS

Legal Authority: 7 USC 241 to 273 United States Warehouse Act

CFR Citation: 7 CFR 102

Abstract: Warehousemen who request an examination will be charged a fee for the service. (Transferred to ASCS. Formerly AMS 84-011.) (ASCS 84-051)

Timetable:

Action	Date	FR Cite
NPRM	06/28/85	50 FR 26776
Final Action	09/30/86	

Small Entity: No

Agency Contact: Tom Witzig,
Department of Agriculture, Agricultural Stabilization and Conservation Service,
Room 3726-S, P.O. Box 2415,
Washington, DC 20013, 202 475-4636

RIN: 0560-AA45

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21. 1985 SUGAR BEET AND SUGARCANE LOAN RATES

Significance: Regulatory Program

Legal Authority: 7 USC 1446(h); Agricultural Act of 1949, Sec 201(h)

CFR Citation: 7 CFR 1435.110 et seq

Abstract: The objective of this action is to determine and announce the price support loan rates for the 1985 crops of sugar beets and sugarcane. The determination of these loan rates is required by the Agricultural Act of 1949, as amended. Establishment of the price for raw sugar at 18.00 cents per pound or above is being considered. Establishing raw cane sugar above 18.00 cents per pound could cost consumers and cause the Commodity Credit Corporation to receive sugar by forfeiture. The loan rate for refined beet sugar is to be established at such level which is determined to be fair and reasonable in relation to the loan rate established for raw cane sugar. (ASCS 84-040)

Timetable:

Action	Date	FR Cite
NPRM	08/22/85	50 FR [illegible]
Final Action	10/01/85	

Small Entity: No

Agency Contact: Tom Witzig,
Department of Agriculture, Agricultural Stabilization and Conservation Service,
Room 3726-S, P.O. Box 2415,
Washington, DC 20013, 202 475-4636

RIN: 0560-AA48

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22. REGS. RELATING TO THE REFERRAL OF DELINQUENT DEBTS TO CREDIT REPORTING AGENCIES

Legal Authority: 4 CFR 101 to 106; 15 USC 714b The Commodity Credit Corporation Charter Act

CFR Citation: 7 CFR 1403

Abstract: To implement debt collection legislation and regulations that require disclosure of debts to credit reporting agencies.

To provide incentive for delinquent debtors to repay debts owed to the Government. (ASCS 85-008)

Timetable:

Action	Date	FR Cite
NPRM	09/30/85	
Final Action	11/30/85	

Small Entity: No

Agency Contact: Tom Witzig,
Department of Agriculture, Agricultural Stabilization and Conservation Service,
Room 3726-S, P.O. Box 2415,
Washington, DC 20013, 202 475-4636

RIN: 0560-AA50

23. 1985-86 MILK PRICE SUPPORT PROGRAM (EFFECTIVE 10/1/85)

Significance: Regulatory Program

Legal Authority: The Agricultural Act of 1949, as amended

CFR Citation: 7 CFR 1430

Abstract: The Agricultural Act of 1949 (the Act), as amended, requires that the price support for milk shall be carried out through purchase of milk or milk products. The Act requires that the price of milk to producers be supported at such level between 75 and 90 percent of parity as would assure an adequate supply of milk, reflect changes in the cost of production, and assure a level of farm income to maintain productive capacity sufficient to meet future needs.

In the absence of new legislation, the minimum price support level on October 1, 1985, would revert to 75 percent of parity. (ASCS 85-009)

Timetable:

Action	Date	FR Cite
NPRM	08/01/85	50 FR 31206
Final Action	09/30/85	

Small Entity: No

Agency Contact: Tom Witzig,
Department of Agriculture, Agricultural Stabilization and Conservation Service,
Room 3726-S, P.O. Box 2415,
Washington, DC 20013, 202 475-4696

RIN: 0560-AA61

24. ● 1986 WHEAT PROGRAM REGULATIONS

Significance: Regulatory Program

Legal Authority: 7 USC 1332; Agricultural Adjustment Act of 1938, Sec. 332, as amended; 7 USC 1336; Agricultural Adjustment Act of 1938, Sec. 336, as amended; 7 USC 1379; Agricultural Adjustment Act of 1938, Sec. 379, as amended; 7 USC 1441; Agricultural Act of 1949, Sec. 101, as amended; 7 USC 1445a, note; Agricultural Act of 1949, Sec. 107, as amended

CFR Citation: 00 CFR Not yet determined

Abstract: This action would determine the referendum process and land use program, and establish loan and purchase rates, and the marketing certificate allocation program for the 1986 crop of wheat.

The provisions of section 107b of the Agricultural Act of 1949 expires with the 1985 crop of wheat. Without new legislation, authority for the 1986 Wheat Program reverts to permanent legislation. Using this authority, the Secretary has proclaimed quotas and must conduct a producer referendum for wheat for the marketing year beginning June 1, 1986. Section 336 of the Agricultural Adjustment Act of 1938, as amended, requires that the referendum be conducted no later than 3 days after adjournment sine die of the first session of the Ninety-Ninth Congress. (ASCS 85-011)

Timetable:

Action	Date	FR Cite
NPRM	06/06/85	50 FR 23744
NPRM	06/25/85	50 FR 26215
Final Action	10/01/85	

Small Entity: No

Agency Contact: Tom Witzig,
Department of Agriculture, Agricultural Stabilization and Conservation Service,
Room 3726-S, P.O. Box 2415,
Washington, DC 20013, 202 475-4696

RIN: 0560-AA59

DEPARTMENT OF AGRICULTURE (USDA) Completed Actions

Agricultural Stabilization and Conservation Service (ASCS)

COMPLETED RULEMAKINGS

25. STANDARDS FOR APPROVAL OF WAREHOUSES FOR COTTON OR COTTON LINTERS

CFR Citation: 7 CFR 1427

Completed:

Reason	Date	FR Cite
Final Action	04/26/85	50 FR 16403

Small Entity: No

Agency Contact: Tom Witzig 202 475-4696

RIN: 0560-AA14

26. STANDARDS FOR APPROVAL OF WAREHOUSES OF GRAIN, RICE, DRY EDIBLE BEANS, AND SEED

CFR Citation: 7 CFR 1421

Completed:

Reason	Date	FR Cite
Final Action	07/22/85	50 FR 29839

Small Entity: No

Agency Contact: Tom Witzig 202 475-4696

RIN: 0560-AA17

27. 1985-CROP PEANUT PRICE SUPPORT PROGRAM DIFFERENTIALS

CFR Citation: Not applicable

Completed:

Reason	Date	FR Cite
Final Action	05/22/85	50 FR 21105

Small Entity: No

Agency Contact: Tom Witzig 202 475-4696

RIN: 0560-AA23

28. GENERAL REGULATIONS GOVERNING 1982 THROUGH 1985 CROPS PEANUT WAREHOUSE STORAGE LOANS AND HANDLER OPERATIONS (AMENDMENT 3)

CFR Citation: 7 CFR 1446

Completed:

Reason	Date	FR Cite
Final Action	03/18/85	50 FR 10760

Small Entity: No

Agency Contact: Tom Witzig 202 475-4696

RIN: 0560-AA27

29. 1985 WOOL AND MOHAIR INCENTIVE PAYMENT PROGRAM

CFR Citation: 7 CFR 1468; 7 CFR 1472

Completed:

Reason	Date	FR Cite
Final Action	06/28/85	50 FR 26613

Small Entity: No

Agency Contact: Tom Witzig 202 475-4696

RIN: 0560-AA28

30. 1984-85 MILK PRICE SUPPORT PROGRAM - NOTICE OF PRICE SUPPORT LEVEL (EFFECTIVE 4/1/85)

Significance: Agency Priority

CFR Citation: 7 CFR 1430

Completed:

Reason	Date	FR Cite
Final Action	04/03/85	50 FR 13258

Small Entity: No

Agency Contact: Tom Witzig 202 475-4636

RIN: 0560-AA36

31. MINOR KINDS TOBACCO MARKETING QUOTAS – 1985 CROP

CFR Citation: 7 CFR 724

Completed:

Reason	Date	FR Cite
Final Action	06/10/85	50 FR 24256

Small Entity: No

Agency Contact: Tom Witzig 202 475-4636

RIN: 0560-AA44

32. 1984-85 MILK PRICE SUPPORT PROGRAM - NOTICE OF PRICE SUPPORT LEVEL (EFFECTIVE 7/1/85)

Significance: Agency Priority

CFR Citation: 7 CFR 1430

Completed:

Reason	Date	FR Cite
Final Action	07/05/85	50 FR 27647

Small Entity: No

Agency Contact: Tom Witzig 202 475-4636

RIN: 0560-AA46

33. DETERMINATION OF A NATIONAL MARKETING QUOTA AND ACREAGE ALLOTMENT FOR THE 1986/87 WHEAT MARKETING YEAR AND THE CONDUCTING OF A PRODUCER REFERENDUM

CFR Citation: Not yet determined

Completed:

Reason	Date	FR Cite
Final Action	04/18/85	50 FR 15485

Small Entity: No

Agency Contact: Tom Witzig 202 475-4636

RIN: 0560-AA52

ACTIONS THAT STARTED AND ENDED BETWEEN ISSUES OF THE UNIFIED AGENDA

34. ● SPECIAL PRODUCER STORAGE LOAN PROGRAM

Legal Authority: Commodity Credit Corporation Charter Act, as amended

CFR Citation: 7 CFR 1421

Abstract: This action would allow farmers to maintain control of their own grain under a new producer storage loan program. Advance storage payments for grain pledged as security for the new loans would be made to producers by CCC at the same storage rate which is applicable to the farmer-owned reserve program. (ASCS 85-018)

Timetable:

Action	Date	FR Cite
Interim Final Rule	04/25/85	50 FR 16221
Final Action	07/31/85	50 FR 30925

Small Entity: No

Agency Contact: Tom Witzig, Department of Agriculture, Agricultural Stabilization and Conservation Service, Room 3726-S, P.O. Box 2415, Washington, DC 20013, 202 475-4636

RIN: 0560-AA57

[FR Doc. [illegible] Filed [illegible]]

BILLING CODE [illegible]

DEPARTMENT OF AGRICULTURE (USDA)

Animal and Plant Health Inspection Service (APHIS)

Current and Projected Rulemakings

35. REVISION OF 7 CFR 319.56 - FRUITS AND VEGETABLES

Significance: Regulatory Program

Legal Authority: 7 USC 150dd to ff; 7 USC 159; 7 USC 162

CFR Citation: 7 CFR 319.56

Abstract: An increased number of exotic pests have been introduced recently into the United States. Some of these pests may have arrived on importations of fruits and vegetables. Since these pests are capable of causing extensive economic damage, Plant Protection and Quarantine (PPQ) is considering the development of an improved system for determining the entry status of agricultural products, particularly fruits and vegetables. (APHIS 86-008)

Timetable:

Action	Date	FR Cite
NPRM	03/01/86	
Final Action	08/01/86	

Small Entity: Undetermined

Agency Contact: Nick Bedessem, Department of Agriculture, Animal and Plant Health Inspection Service, Room 728, Federal Bldg., Hyattsville, MD 20782, 301 436-5555

RIN: 0579-AA12

[FR Doc. [illegible] Filed [illegible]]

BILLING CODE [illegible]

DEPARTMENT OF AGRICULTURE (USDA)

Farmers Home Administration (FmHA)

Current and Projected Rulemakings

36. SUSPENSION AND DEBARMENT REGULATIONS

Legal Authority: 7 USC 1989; 42 USC 1480(j)

CFR Citation: 7 CFR 1864

Abstract: This regulatory activity will improve FmHA's suspension and debarment system by establishing regulations that are compatible with other federal agency regulations. (FmHA 83-004)

Timetable:

Action	Date	FR Cite
NPRM	06/00/86	
Final Action	08/00/86	

Small Entity: No

Agency Contact: Carl Opstad, Regulatory Coordinator, Department of Agriculture, Farmers Home Administration, Room 6348-S, Washington, DC 20250, 202 382-9744

RIN: 0575-AA02

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37. REVISION OF FMHA INSTRUCTION 1944-A, "SECTION 502 RURAL HOUSING LOAN POLICIES, PROCEDURES AND AUTHORIZATIONS," TO IMPLEMENT THE REQUIREMENTS OF THE RURAL HOUSING AMENDMENTS OF 1983

Significance: Regulatory Program

Legal Authority: 42 USC 1480(j) et seq

CFR Citation: 7 CFR 1934; 7 CFR 1944

Abstract: The need for Government action is mandated by changes in the Agency's authorizing statute requiring corresponding changes in the FmHA rural housing program. The objectives of the action are: (1) allow extension of terms for applicants for initial loans with incomes of not more than 60 percent of median income for up to 38 years if needed for repayment ability; (2) give priority to applicants with the greatest need for housing because of their low income and inadequate dwellings, and to those applicants who will reside in areas which are the most rural in character; (3) implement Section 502 loans to purchase mobile/manufactured homes and sites, and certain allowable expenses for transportation and set-up. (Item (3) has been made a separate publication.) (FmHA 84-003)

Timetable:

Action	Date	FR Cite
NPRM Item (3)	09/00/85	
NPRM Items (1) & (2)	12/00/85	
Final Action Item (3)	01/00/86	
Final Action Items (1) & (2)	03/00/86	

Small Entity: No

Agency Contact: Carl Opstad, Regulatory Coordinator, Department of Agriculture, Farmers Home Administration, Room 6348-S, Washington, DC 20250, 202 382-9744

RIN: 0575-AA21

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38. MOBILE/MANUFACTURED HOUSING PARKS/COMMUNITIES FOR RENTAL PURPOSES

Legal Authority: 42 USC 1480(j)

CFR Citation: 7 CFR 1944

Abstract: The objectives of the action are to provide financing to eligible applicants to develop mobile/manufactured housing parks/communities for rental purposes to eligible occupants as provided for in the Rural Housing Amendments of 1983. (FmHA 84-007)

Timetable:

Action	Date	FR Cite
NPRM	09/00/85	
Final Action	01/00/86	

Small Entity: No

Agency Contact: Carl Opstad, Regulatory Coordinator, Department of Agriculture, Farmers Home Administration, Room 6348-S, Washington, DC 20250, 202 382-9744

RIN: 0575-AA06

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39. SPECIAL DEBT SET-ASIDE OF A PORTION OF THE INDEBTEDNESS OF FARMER PROGRAM BORROWERS

Significance: Agency Priority

Legal Authority: 7 USC 1989

CFR Citation: 7 CFR 1951

Abstract: The need for government action is the distressed financial situation of some FmHA borrowers; The objectives of this action are to (1) alleviate somewhat the distressed financial situation of some FmHA borrowers and (2) provide FmHA borrowers with the opportunity to make critical decisions on disposition of the current crop income and to develop plans for continuing their farming operation. (FmHA 84-018)

Timetable:

Action	Date	FR Cite
Interim Final Rule	10/19/84	49 FR 41220
Final Action	12/00/85	

Small Entity: No

Agency Contact: Carl Opstad, Regulatory Coordinator, Department of Agriculture, Farmers Home Administration, Room 6348-S, Washington, DC 20250, 202 382-9744

RIN: 0575-AA10

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40. REVISIONS TO REGULATIONS MANDATED BY 1983 HOUSING AMENDMENTS (P.L. 98-181)

Significance: Regulatory Program

Legal Authority: 42 USC 1480(j) et seq

CFR Citation: 7 CFR 1930; 7 CFR 1944

Abstract: Interim final rule to implement the requirements of the Rural Housing Amendments of 1983 regarding definitions of income and adjusted annual income, and use of HUD income limits for eligibility, establish requirements regarding rent increases, implement rules on pets in elderly projects, establish new rules on providing rental assistance, and establish occupancy levels between low and very low income tenants. (FmHA 83-017)

Timetable:

Action	Date	FR Cite
NPRM for 1930	07/16/85	50 FR 28782
Final Action for 1944	10/00/85	
Final Action for 1930	01/00/86	

Small Entity: No

Agency Contact: Carl Opstad, Regulatory Coordinator, Department of Agriculture, Farmers Home Administration, Room 6348-S, Washington, DC 20250, 202 382-9744

RIN: 0575-AA20

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41. ● FMHA GUARANTEES OF COMMERCIAL LENDER'S FARM OWNERSHIP (FO) AND OPERATING LOANS (OL) WITH ACCOMPANYING LENDER PRINCIPAL WRITE DOWN AND/OR INTEREST RATE REDUCTION

Legal Authority: 7 USC 1989

CFR Citation: 7 CFR 1980

Abstract: The general objective of the proposed action is to integrate Government and Private Sector resources in a continual effort to resolve financial difficulties in agriculture. The proposed action amends the debt adjustment program regulations for guaranteed OL and FO loans to clarify the dollar value equivalency of an interest rate reduction used in lieu of a required 10 percent minimum write down of the total principal and interest outstanding on loan(s) which a lender wants guaranteed; to reduce the minimum positive cash flow requirement under the DAP from 110 percent to 100 percent and to permit lenders to use a combination write down of principal of indebtedness along with an interest rate reduction which would equal the value of an upfront write down of existing indebtedness of at least 10 percent. The intended effect of this action is to provide additional financial assistance to both lenders and their farm borrowers in a time of financial difficulty. (FmHA 85-005)

Timetable:

Action	Date	FR Cite
Interim Final Rule	03/13/85	50 FR 9967
Final Action	12/00/86	

Small Entity: No

Agency Contact: Carl Opstad, Regulatory Coordinator, Department of Agriculture, Farmers Home Administration, Room 6348-S, Washington, DC 20250, 202 382-9744

RIN: 0575-AA22

DEPARTMENT OF AGRICULTURE (USDA)
Farmers Home Administration (FmHA)

Completed Actions

COMPLETED RULEMAKINGS

42. PROPERTY MANAGEMENT

CFR Citation: 7 CFR 1955

Completed:

Reason	Date	FR Cite
Final Action	06/07/85	50 FR 23897

Small Entity: No

Agency Contact: Carl Opstad 202 382-9744

RIN: 0575-AA03

43. DEVELOPMENT GRANTS FOR COMMUNITY DOMESTIC WATER AND WASTE DISPOSAL SYSTEM

CFR Citation: 7 CFR 1942

Completed:

Reason	Date	FR Cite
Final Action	04/01/85	50 FR 12767

Small Entity: No

Agency Contact: Carl Opstad 202 382-9744

RIN: 0575-AA06

44. FMHA GUARANTEES OF COMMERCIAL LENDERS' FARM OWNERSHIP (FO) AND OPERATING LOANS (OL) WITH ACCOMPANYING LENDER "WRITE-DOWN"

Significance: Agency Priority

CFR Citation: 7 CFR 1980

Completed:

Reason	Date	FR Cite
Final Action	02/15/85	50 FR 6660

Small Entity: No

Agency Contact: Carl Opstad 202 382-9744

RIN: 0575-AA09

[FR Doc. 85-[illegible] Filed 10-28-85; 8:45 am]

BILLING CODE 3410-07-T

DEPARTMENT OF AGRICULTURE (USDA)
Federal Grain Inspection Service (FGIS)

Current and Projected Rulemakings

45. KINDS OF OFFICIAL SERVICES

Legal Authority: 7 USC 79; 7 USC 79a; 7 USC 79(c); 7 USC 87e

CFR Citation: 7 CFR 800.75 to 800.78; 7 CFR 800.135 to 800.140; 7 CFR 800.160 to 800.166

Abstract: FGIS will review the kinds of official services provided under the regulations under the U.S. Grain Standards Act to ensure that the services meet the needs of the grain marketing system and maintain the integrity of the inspection and weighing system. (FGIS 84-006)

Timetable:

Action	Date	FR Cite
NPRM	04/19/85	50 FR 15689
Final Action	09/00/86	

Small Entity: No

Agency Contact: L. Lebakken, Jr., Chief, Information Resource Management Br., Department of Agriculture, Federal Grain Inspection Service, Room 0667-S, Washington, DC 20250, 202 382-1738

RIN: 0580-AA02

46. RECORDKEEPING AND ACCESS TO FACILITIES

Legal Authority: 7 USC 79a(k); 7 USC 87a; 7 USC 87e

CFR Citation: 7 CFR 800.25 to 800.26

Abstract: FGIS will review the requirements for recordkeeping and access to facilities imposed on grain elevators by the regulations under the U.S. Grain Standards Act. The review will include examination of continued need for the regulations, language clarity, consistency with law and Agency policy, and cost effectiveness. (FGIS 84-008)

Timetable:

Action	Date	FR Cite
NPRM	01/08/85	50 FR 948
Final Action	09/00/85	

Small Entity: No

Agency Contact: L. Lebakken, Jr., Chief, Information Resource Management Br., Department of Agriculture, Federal Grain Inspection Service, Room 0667-S, Washington, DC 20250, 202 382-1738

RIN: 0580-AA05

DEPARTMENT OF AGRICULTURE (USDA)
Federal Grain Inspection Service (FGIS)

Completed Actions

COMPLETED RULEMAKINGS

47. FEES FOR OFFICIAL SERVICES PERFORMED BY OFFICIAL AGENCIES

CFR Citation: 7 CFR 800.70

Completed:

Reason	Date	FR Cite
Final Action	07/24/85	50 FR 30129

Small Entity: No

Agency Contact: L. Lebakken, Jr., Chief
202 382-1738

RIN: 0580-AA01

48. LICENSES AND AUTHORIZATIONS

CFR Citation: 7 CFR 800.170 to 800.180

Completed:

Reason	Date	FR Cite
Final Action	02/13/85	50 FR 5869

Small Entity: No

Agency Contact: L. Lebakken, Jr., Chief
202 382-1738

RIN: 0580-AA06

49. OFFICIAL RECORDS AND FORMS

CFR Citation: 7 CFR 800.145 to 800.156

Completed:

Reason	Date	FR Cite
Final Action	05/08/85	50 FR 19465

Small Entity: No

Agency Contact: L. Lebakken, Jr., Chief
202 382-1738

RIN: 0580-AA07

[FR Doc. 85-25880 Filed 10-28-85; 8:45 am]
BILLING CODE 3410-01-T

DEPARTMENT OF AGRICULTURE (USDA)
Food and Nutrition Service (FNS)

Current and Projected Rulemakings

50. OBRA 1982

Significance: Regulatory Program

Legal Authority: 7 USC 2012(f),(r); 7 USC 2014(c),(g),(i),(j); 7 USC 2015(e); 7 USC 2017(c); 7 USC 2020(e)(4),(9),(10),(i)

CFR Citation: 7 CFR 273

Abstract: This final rule, based on proposed or interim rulemakings, implements changes to eligibility criteria mandated by P.L. 97-98 and P.L. 97-253, revises recertification procedures, and simplifies the rules when a household files for both food stamp and public assistance benefits. It also tightens expedited service procedures, updates procedures for notices of adverse action, revises resource definitions, and changes some work registration provisions. (FNS 84-003)

Timetable:

Action	Date	FR Cite
NPRM	11/19/82	47 FR 52185
NPRM	11/30/82	47 FR 53878
Interim Final Rule	11/30/82	47 FR 53825
Interim Rule	12/10/82	47 FR 55463
Interim Rule	12/14/82	47 FR 55903
NPRM	12/28/82	47 FR 57725
Interim Rule	04/01/83	48 FR 13955
NPRM	05/24/83	48 FR 23257
Final Action	08/00/86	

Small Entity: No

Agency Contact: Irene Lankford,
Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3384

RIN: 0584-AA04

51. ISSUANCE LOSS LIABILITY

Significance: Regulatory Program

Legal Authority: 7 USC 2016; 7 USC 2020(e)(20)

CFR Citation: 7 CFR 274; 7 CFR 276; 7 CFR 272, for interim

Abstract: These rules govern the issuance of food stamps to Food Stamp Program participants. They also establish the system for accounting for the food stamps and establish liabilities for losses during the issuance process. (FNS 84-002)

Timetable:

Action	Date	FR Cite
Interim Final Rule	10/29/82	47 FR 49010
NPRM	09/00/85	
Final Action	04/00/86	

Small Entity: No

Agency Contact: Irene Lankford,
Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3384

RIN: 0584-AA05

52. FOOD DISTRIBUTION PROGRAM

Legal Authority: 7 USC 612c; 15 USC 713c; 42 USC 1755; 42 USC 1758; 7 USC 1431; 22 USC 1922; 7 USC 1859; 7 USC 1431b; 7 USC 1431 Note; 7 USC 1446a-1; 42 USC 1761; 42 USC 5179; 42 USC 5180; 42 USC 1762a; 42 USC 1766; ...

CFR Citation: 7 CFR 250

Abstract: The rule reorganizes existing regulatory provisions for clarity and ease of reference. This rule outlines the responsibilities of the Food and Nutrition Service and State agencies concerning the distribution of USDA-donated foods acquired under various legislative authorities. The rule prescribes the terms and conditions under which donated foods may be obtained through State distributing agencies for use in schools, child care institutions, nonprofit summer camps for children, charitable institutions, nutrition programs for the elderly, and otherwise in the assistance of needy persons. In addition, a number of provisions have been included to strengthen and improve the State Processing Program. (FNS 84-813)

Timetable:

Action	Date	FR Cite
NPRM	09/00/85	
Final Action	03/00/86	

Small Entity: No

Additional Information: ADDITIONAL LEGAL AUTHORITIES: 7 USC 612c Note; 42 USC 3030a; 42 USC 1760; 5 USC 301; 7 USC 1431e; 7 USC 612c Note.

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3684

RIN: 0584-AA07

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53. FOOD DISTRIBUTION PROGRAM ON INDIAN RESERVATIONS

Legal Authority: 7 USC 2013(b)

CFR Citation: 7 CFR 253

Abstract: The rule reorganizes existing regulatory provisions for clarity and ease of reference. This rule describes the terms and conditions under which (1) USDA-donated foods (available under 7 CFR 250) may be distributed to households on or near Indian reservations; (2) the program may be administered by capable Indian tribal organizations; and (3) funds may be obtained from USDA for the costs incurred in administering the program. The rule also provides for the concurrent operation of the Food Distribution Program and the Food Stamp Program on Indian reservations when such concurrent operation is requested by an Indian tribal organization. (FNS 84-314)

Timetable:

Action	Date	FR Cite
NPRM	08/00/85	
Final Action	02/00/86	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3684

RIN: 0584-AA09

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54. FOOD STAMP PROGRAM: REVISION OF PARTS 271, 272, 273 AND 274

Legal Authority: 7 USC 2011 et seq

CFR Citation: 7 CFR 271; 7 CFR 272; 7 CFR 273; 7 CFR 274

Abstract: This rule clarifies, simplifies, and reorganizes food stamp certification and issuance rules. (FNS 84-019)

Timetable:

Action	Date	FR Cite
NPRM	00/00/00	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3684

RIN: 0584-AA10

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55. TEMPORARY EMERGENCY FOOD ASSISTANCE PROGRAM FOR FISCAL YEARS 1984 AND 1985

Significance: Regulatory Program

Legal Authority: PL 98-8, Title II

CFR Citation: 7 CFR 251

Abstract: This rule amends the Temporary Emergency Food Assistance Program regulations to include (1) monitoring of program participation and submission of reports. These provisions strengthen 7 CFR 251 by adding monitoring and accountability components. (FNS 84-310)

Timetable:

Action	Date	FR Cite
NPRM	07/02/84	49 FR 27159
Final Action	10/00/85	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3024

RIN: 0584-AA16

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56. FOOD STAMP PROGRAM: REIMBURSING WORKFARE'S ADMINISTRATIVE COSTS

Significance: Regulatory Program

Legal Authority: 7 USC 2029(g)(2)

CFR Citation: 7 CFR 273.22

Abstract: The rule revises criteria for incentive reimbursement for optional workfare projects. (FNS 85-005)

Timetable:

Action	Date	FR Cite
Interim Final Rule	01/11/83	48 FR 1171
Final Action	10/00/85	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3684

RIN: 0584-AA20

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57. EMERGENCY FOOD ASSISTANCE FOR VICTIMS OF DISASTERS

Significance: Regulatory Program

Legal Authority: 7 USC 2013(b); 7 USC 2014(h)

CFR Citation: 7 CFR 280

Abstract: This final rule defines special eligibility and issuance procedures during declared disasters. (FNS 84-001)

Timetable:

Action	Date	FR Cite
NPRM	01/27/81	46 FR 8823
Final Action	10/00/85	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3684

RIN: 0584-AA24

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58. EXTENSION OF THE NATIONAL COMMODITY PROCESSING PROGRAM

Legal Authority: 7 USC 612c; 7 USC 612c note; 15 USC 713C; 42 USC 1755; 42 USC 1758; 7 USC 1431; 22 USC 1922; 7 USC 1859; 7 USC 1436; 7 USC 1431 note; 7 USC 1446a-1; 42 USC 1761; 42 USC 3175; 42 USC 3180; 42 USC 1762a

CFR Citation: 7 CFR 252

Abstract: This rule extends the National Commodity Processing (NCP) program through June 30, 1986.

Timetable:

Action	Date	FR Cite
Interim Final Rule	06/23/83	48 FR 28609
Extension of Interim Final Rule	09/01/85	

Small Entity: No

Additional Information: ADDITIONAL LEGAL AUTHORITIES: 42 USC 1766, 42 USC 3030a, 42 USC 1760, 8 USC 301, 7 USC 1431e, Section 203 of Public Law 98-8 will expire on September 30, 1985.

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3084

RIN: 0584–AA26

59. AUDIT REQUIREMENTS IN THE CHILD CARE FOOD PROGRAM

Legal Authority: 42 USC 1766

CFR Citation: 7 CFR 226.8

Abstract: This rule will implement organization-wide audits in the Child Care Food Program and will outline the permissible uses of funds available to perform audits.

Timetable:

Action	Date	FR Cite
NPRM	04/12/83	48 FR 15837
Final Action	10/00/85	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3084

RIN: 0584–AA30

60. REWRITE OF REGULATIONS ON DETERMINING ELIGIBILITY FOR FREE AND REDUCED PRICE BENEFITS

Legal Authority: 42 USC 1758; 42 USC 1779

CFR Citation: 7 CFR 245

Abstract: This rule will revise regulations covering the eligibility process for school meals and milk. Part 245 has not undergone a complete rewrite in many years despite legislative change which has substantially changed the application process. The rewrite is primarily nonsubstantive in nature. The rewrite is intended to remove duplicative and obsolete provisions to clarify and reorganize all sections and to incorporate the requirements of P.L. 97-35. (FNS 84-516)

Timetable:

Action	Date	FR Cite
NPRM	11/00/85	
Final Action	06/00/86	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3084

RIN: 0584–AA32

61. NSLP VERIFICATION MONITORING/AND AIMS

Significance: Regulatory Program

Legal Authority: 42 USC 1758; 42 USC 1779

CFR Citation: 7 CFR 210; 7 CFR 245

Abstract: This proposal will require State agencies to monitor School Food Authorities' compliance with the verification of eligibility requirements contained in 7 CFR 245. This monitoring would become part of the Assessment, Improvement and Monitoring System which is currently in place. (FNS 84-509)

Timetable:

Action	Date	FR Cite
NPRM	09/00/85	
Final Action	01/00/86	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3084

RIN: 0584–AA33

62. MANAGEMENT EVALUATIONS AND CORRECTIVE ACTION PLANS

Legal Authority: 7 USC 2020(e)(13); 7 USC 2025(b)

CFR Citation: 7 CFR 275

Abstract: This rule focuses program reviews on priority target areas and improves use of corrective action planning. (FNS 84-018)

Timetable:

Action	Date	FR Cite
NPRM	10/00/85	
Final Action	04/00/86	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3084

RIN: 0584–AA37

63. FORFEITURE PROCEDURES/BONDING

Legal Authority: 7 USC 2024(g)

CFR Citation: 7 CFR 278

Abstract: This rule allows FNS to retain goods or money acquired during investigations of potential store violations. In addition, the rule will also permit disqualified stores seeking reauthorization to post letters of credit in lieu of collateral bonds. (FNS 84-017)

Timetable:

Action	Date	FR Cite
NPRM	09/00/85	
Final Action	04/00/86	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3084

RIN: 0584–AA40

64. REWRITE OF NATIONAL SCHOOL LUNCH PROGRAM REGULATIONS

Significance: Regulatory Program

Legal Authority: 42 USC 1751 et seq

CFR Citation: 7 CFR 210

Abstract: This rule will propose to revise the regulations covering the National School Lunch Program and the Commodity School Program. Since January 20, 1970, Part 210 has been amended with over 50 final rules and a number of interim rules. This proposal is intended to be nonsubstantive in nature. Emphasis is placed on resolving ambiguities and inconsistencies; eliminating unnecessary, duplicative and obsolete provisions; and clarifying both language and style so that Part 210 is more easily understood. (FNS 84-511)

Timetable:

Action	Date	FR Cite
NPRM	02/12/85	50 FR 5950
Final Action	06/00/86	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3084

RIN: 0584–AA43

65. ADMINISTRATIVE REVIEW PROCESS ARBITRATION

Significance: Regulatory Program

Legal Authority: 7 USC 2023(a); 7 USC 2025(c),(d)

CFR Citation: 7 CFR 275.7

Abstract: FNS is considering simplification of review process. In addition, FNS is proposing to set definite timeframes for the submission of State requests for arbitration on individual quality control cases where findings are disputed. (FNS 84-013)

Timetable:

Action	Date	FR Cite
NPRM	09/00/85	
Final Action	04/00/86	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3064

RIN: 0584–AA46

66. FOOD STAMP PROGRAM: TFP/DEDUCTION UPDATE

Legal Authority: 7 USC 2012(o)(8); 7 USC 2014(e)(3); 7 USC 2014(Z)(8)

CFR Citation: Not applicable

Abstract: The notice announces the cost-of-living increases to the Thrifty Food Plan and to the standard and maximum shelter deductions. (FNS 85-003)

Timetable:

Action	Date	FR Cite
Final Action	09/00/85	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3064

RIN: 0584–AA51

67. FOOD STAMP PROGRAM: CONFORMANCE WITH AFDC RULES

Significance: Regulatory Program

Legal Authority: 7 USC 2014(f)

CFR Citation: 7 CFR 273; 7 CFR 275

Abstract: The rule reviews Food Stamp and Aid to Families with Dependent Children regulations for inconsistencies and proposes conformance by altering either or both program's rules. (FNS 85-002)

Timetable:

Action	Date	FR Cite
ANPRM	02/19/85	50 FR 6970
NPRM	11/00/85	
Final Action	04/00/86	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3064

RIN: 0584–AA52

68. FOOD STAMP PROGRAM: DEFICIT REDUCTION ACT

Significance: Regulatory Program

Legal Authority: 7 USC 2020(e)(19); PL 98-369, Sec 2651 98 Stat. 1147, July 18, 1984

CFR Citation: 7 CFR 272.1; 7 CFR 272.2; 7 CFR 272.8; 7 CFR 273.2; 7 CFR 273.6; 7 CFR 275; 7 CFR 277.18

Abstract: This rulemaking implements an improved income and eligibility verification system to replace current wage matching requirements in the Food Stamp Program. These new matching requirements are mandated by Public Law 98-369 (DEFRA). Provisions of this rulemaking will:

1) require all States to match quarterly earnings,

2) require matching to a new data base-IRS' unearned income,

3) require "up front" matches of all applicants,

4) increase matching to SSA and Unemployment Compensation Agencies, and

5) require reporting on match results. (FNS 84-021)

Timetable:

Action	Date	FR Cite
NPRM	03/14/85	50 FR 8092
Final Action	10/00/85	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Dr., Alexandria, VA 22302, 703 756-3064

RIN: 0584–AA53

69. ● MEAT ALTERNATES USED IN CHILD NUTRITION PROGRAMS

Legal Authority: 42 USC 1758; 42 USC 1761; 42 USC 1766; 42 USC 1779

CFR Citation: 7 CFR 210; 7 CFR 225, Subpart D; 7 CFR 226, Subpart E

Abstract: Amend meal pattern requirements to expand the list of allowable meat alternates to include nuts and seeds and their butters.

Timetable:

Action	Date	FR Cite
NPRM	08/20/85	
Final Action	01/17/86	

Small Entity: No

Agency Contact: Irene Lankford, Department of Agriculture, Food and Nutrition Service, Room 1107, Park Office Center, 3101 Park Center Drive, Alexandria, VA 22302, 703 756-3064

RIN: 0584–AA55

DEPARTMENT OF AGRICULTURE (USDA)

Food and Nutrition Service (FNS)

Completed Actions

COMPLETED RULEMAKINGS

70. FOOD STAMP PROGRAM: WAIVER SIMPLIFICATION/MRRB AMENDMENTS

Significance: Regulatory Program

CFR Citation: 7 CFR 272; 7 CFR 273; 7 CFR 273.21

Completed:

Reason	Date	FR Cite
Superseded by 85-001	08/27/85	

Small Entity: No

Agency Contact: Irene Lankford 703 756-3084

RIN: 0584-AA02

71. ALASKA THRIFTY FOOD PLAN

CFR Citation: 7 CFR 272.7; 7 CFR 273.10

Completed:

Reason	Date	FR Cite
Final Action	04/03/85	50 FR 13759

Small Entity: No

Agency Contact: Irene Lankford 703 756-3084

RIN: 0584-AA16

72. AMENDMENTS TO REQUIREMENTS FOR STATE AGENCY REPORTING

CFR Citation: 7 CFR 274.8

Completed:

Reason	Date	FR Cite
Final Action	05/17/85	50 FR 20547

Small Entity: No

Agency Contact: Irene Lankford 703 756-3084

RIN: 0584-AA19

73. MISCELLANEOUS AMENDMENTS - CHILD CARE FOOD PROGRAM

CFR Citation: 7 CFR 226

Completed:

Reason	Date	FR Cite
Final Action	03/04/85	50 FR 8573

Small Entity: No

Agency Contact: Irene Lankford 703 756-3084

RIN: 0584-AA28

74. COMPETITIVE FOODS

CFR Citation: 7 CFR 210; 7 CFR 220

Completed:

Reason	Date	FR Cite
Final Action	05/17/85	50 FR 20545

Small Entity: No

Agency Contact: Irene Lankford 703 756-3084

RIN: 0584-AA39

75. DOCUMENTATION AND VERIFICATION OF ELIGIBILITY IN THE CHILD CARE FOOD PROGRAM

CFR Citation: 7 CFR 226

Completed:

Reason	Date	FR Cite
Final Action	05/06/85	50 FR 19305

Small Entity: No

Agency Contact: Irene Lankford 703 756-3084

RIN: 0584-AA49

76. PROPOSED RULE CONCERNING STATE PROCESSING OF USDA-DONATED FOODS

CFR Citation: 7 CFR 250

Completed:

Reason	Date	FR Cite
Final Action	05/15/85	50 FR 20187

Small Entity: No

Agency Contact: Irene Lankford 703 756-3084

RIN: 0584-AA50

[FR Doc. 85-[illegible] Filed 10-28-85; 8:45 am]

BILLING CODE 3410-01-T

DEPARTMENT OF AGRICULTURE (USDA)

Food Safety and Inspection Service (FSIS)

Current and Projected Rulemakings

77. PIZZA STANDARD (79-733)

Legal Authority: 21 USC 601 et seq; 21 USC 451 et seq

CFR Citation: 9 CFR 317; 9 CFR 319; 9 CFR 381

Abstract: Would amend the meat and poultry regulations to provide for more informative labeling of cheese substitutes, a minimum cheese content for pizza products, and the use of only cooked meat on pizza. (FSIS 83-007)

Timetable:

Action	Date	FR Cite
NPRM	08/05/83	48 FR 35654
Final Action	00/00/00	

Small Entity: Yes

Agency Contact: Irwin Dubinsky, Acting Director, Policy Office, Department of Agriculture, Food Safety and Inspection Service, Room 3812-S, Washington, DC 20250, 202 447-6735

RIN: 0583-AA07

78. CANNING OF MEAT AND POULTRY PRODUCTS

Legal Authority: 21 USC 451 et seq; 21 USC 601 et seq

CFR Citation: 9 CFR 308; 9 CFR 318; 9 CFR 320; 9 CFR 327; 9 CFR 381

Abstract: Proposes to amend meat and poultry regulations to accommodate technological advances in thermal processing of meat and poultry products contained in hermetically sealed containers. (FSIS 81-013)

Timetable:

Action	Date	FR Cite
NPRM	04/12/84	49 FR 14636
Final Action	12/00/85	

Small Entity: No

Agency Contact: Irwin Dubinsky, Acting Director, Policy Office, Department of Agriculture, Food Safety and Inspection Service, Room 3812-S, Washington, DC 20250, 202 447-6735

RIN: 0583-AA08

79. DEFINITIONS AND STANDARDS FOR COOKED POULTRY SAUSAGE

Significance: Regulatory Program

Legal Authority: 21 USC 451 et seq

CFR Citation: 9 CFR 381

Abstract: Would establish definitions and standards for cooked poultry sausage. (FSIS 83-010)

Timetable:

Action	Date	FR Cite
NPRM	10/00/86	
Final Action	00/00/00	

Small Entity: No

Agency Contact: Irwin Dubinsky, Acting Director, Policy Office, Department of Agriculture, Food Safety and Inspection Service, Room 3812-S, Washington, DC 20250, 202 447-6735

RIN: 0583-AA10

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80. PROTEIN REQUIREMENTS FOR TURKEY HAM

Legal Authority: 21 USC 451 et seq

CFR Citation: 9 CFR 381

Abstract: Would establish more effective compliance measures and procedures to accommodate new technologies. (FSIS 83-018)

Timetable:

Action	Date	FR Cite
NPRM	01/00/86	
Final Action	10/00/86	

Small Entity: No

Agency Contact: Irwin Dubinsky, Acting Director, Policy Office, Department of Agriculture, Food Safety and Inspection Service, Room 3812-S, Washington, DC 20250, 202 447-6735

RIN: 0583-AA11

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81. BARBEQUE STANDARD

Significance: Regulatory Program

Legal Authority: 21 USC 601 et seq; 21 USC 451 et seq

CFR Citation: 9 CFR 317; 9 CFR 318

Abstract: Would provide for alternative processing methods to be used for barbequed meat and poultry products. (FSIS 83-039)

Timetable:

Action	Date	FR Cite
NPRM	10/00/86	
Final Action	00/00/00	

Small Entity: No

Agency Contact: Irwin Dubinsky, Acting Director, Policy Office, Department of Agriculture, Food Safety and Inspection Service, Room 3812-S, Washington, DC 20250, 202 447-6735

RIN: 0583-AA12

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82. REQUIREMENTS REGARDING POULTRY PRODUCTS MADE BY MECHANICAL DEBONING

Significance: Regulatory Program

Legal Authority: 21 USC 451 et seq

CFR Citation: 9 CFR 381

Abstract: Would revise and supplement the requirements regarding the manufacture, characteristics, use, and labeling of poultry product made by mechanical deboning and the labeling of finished products in which it is used as an ingredient. (FSIS 84-001)

Timetable:

Action	Date	FR Cite
NPRM	10/00/85	
Final Action	10/00/86	

Small Entity: No

Agency Contact: Irwin Dubinsky, Acting Director, Policy Office, Department of Agriculture, Food Safety and Inspection Service, Room 3812-S, Washington, DC 20250, 202 447-6735

RIN: 0583-AA15

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83. EXTENSION OF OPERATING SCHEDULES FOR TOTAL QUALITY CONTROL PLANTS

Legal Authority: 21 USC 451 et seq; 21 USC 601 et seq

CFR Citation: 9 CFR 318; 9 CFR 381

Abstract: would allow plants operating under total quality control systems to process and ship product past the normal 8-hour schedule. (FSIS 83-020)

Timetable:

Action	Date	FR Cite
NPRM	08/00/85	
Final Action	04/00/86	

Small Entity: No

Agency Contact: Irwin Dubinsky, Acting Director, Policy Office, Department of Agriculture, Food Safety and Inspection Service, Room 3812-S, Washington, DC 20250, 202 447-6735

RIN: 0583-AA16

DEPARTMENT OF AGRICULTURE (USDA)

Food Safety and Inspection Service (FSIS)

Existing Regulations Under Review

84. RECORDS, REGISTRATION, AND REPORTS

Legal Authority: 21 USC 451 et seq; 21 USC 601 et seq; 5 USC 552 et seq; 5 USC 601 et seq; 44 USC 3501 et seq; EO 12291

CFR Citation: 9 CFR 320; 9 CFR 381, Subpart Q

Abstract: The Agency will review Parts 320 and 381 Subpart Q, of Title 9 of the Code of Federal Regulations relating to records and reports required to be maintained by official meat and poultry establishments. The purpose of the review will be to determine whether present reporting and recordkeeping requirements can be reduced or effected in a more efficient, less burdensome manner. (FSIS 82-003)

Timetable:

Action	Date	FR Cite
Begin Review	08/08/83	
End Review	03/31/86	

Small Entity: No

Agency Contact: G. E. McEvoy, Director, Planning Office, Department of Agriculture, Food Safety and Inspection Service, Room 105, Annex Bldg., Washington, DC 20250, 202 447-3317

RIN: 0583-AA00

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85. ADMINISTRATIVE REGULATIONS

Legal Authority: 21 USC 601 et seq; 21 USC 451 et seq; 44 USC 3501 et seq; 5 USC 601 et seq; 7 CFR 1; EO 12291

CFR Citation: 9 CFR 304; 9 CFR 305; 9 CFR 306; 9 CFR 307; 9 CFR 329; 9 CFR 331; 9 CFR 335; 9 CFR 381

Abstract: The Agency will review administrative requirements for applying for, granting, refusing, inaugurating, and withdrawing inspection; detaining, seizing, and condemning meat and poultry products; assigning program employees; designating States and territories, and providing reimbursable services, scheduling of operations, and for overtime and holiday services.

Would also determine adequacy of current regulations as they relate to petitioning the Agency for regulatory change and informing interested persons of Agency procedures for appeal in the event of adverse determinations. (FSIS 83-009)

Timetable:

Action	Date	FR Cite
Begin Review	01/00/83	
End Review	09/00/86	

Small Entity: No

Agency Contact: G. E McEvoy, Director, Planning Office, Department of Agriculture, Food Safety and Inspection Service, Room 105, Annex Bldg., Washington, DC 20250, 202 447-3317

RIN: 0583–AA02

86. RED MEAT SLAUGHTER REGULATIONS

Significance: Agency Priority

Legal Authority: 21 USC 601 et seq; 5 USC 601 et seq; EO 12291

CFR Citation: 9 CFR 307; 9 CFR 309; 9 CFR 310; 9 CFR 311; 9 CFR 312; 9 CFR 313; 9 CFR 314; 9 CFR 316

Abstract: The Agency will review the slaughter provisions of the regulations promulgated under the Federal Meat Inspection Act (FMIA), 9 CFR 307, 309 through 314, and 316, to identify regulatory provisions that may be deleted or modified as a result of either technological advances or changes in meat inspection procedures while allowing the Agency to maintain the same standards for product wholesomeness and public health protection. (FSIS 83-004)

Timetable:

Action	Date	FR Cite
Begin Review	01/00/83	
End Review	03/31/86	

Small Entity: No

Agency Contact: G. E. McEvoy, Director, Planning Office, Department of Agriculture, Food Safety and Inspection Service, Room 105, Annex Bldg., Washington, DC 20250, 202 447-3317

RIN: 0583–AA03

87. LABEL APPROVAL REGULATIONS

Legal Authority: 21 USC 451 et seq; 21 USC 601 et seq

CFR Citation: 9 CFR 317; 9 CFR 381, Subpart N

Abstract: The Agency will review Parts 317 and 381, Subpart N, of Title 9 of the Code of Federal Regulations relating to requirements for prior approval of labels of meat, meat products, poultry, and poultry products. The purpose of the review is to assess the impact of the Agency's label approval regulations in order to reduce unnecessary burdens.

Although the Agency has completed rulemaking to provide for prior approval of certain labels by field personnel and the pre-approval of certain kinds of label changes without the need for prior Agency approval, the review has been continued to determine if further reduction of burden resulting from Agency prior approval requirements might be accomplished. (FSIS 83-006)

Timetable:

Action	Date	FR Cite
NPRM	05/21/82	47 FR 22101
Begin Review	06/00/82	
Final Action	03/18/83	48 FR 11410
End Review	03/31/86	

Small Entity: No

Agency Contact: G. E. McEvoy, Director, Planning Office, Department of Agriculture, Food Safety and Inspection Service, Room 106, Annex Bldg., Washington, DC 20250, 202 447-3317

RIN: 0583–AA06

88. TRANSPORTATION

Legal Authority: 21 USC 451 et seq; 21 USC 601 et seq; 5 USC 601 et seq; EO 12291

CFR Citation: 9 CFR 325; 9 CFR 381, Subpart S

Abstract: The Agency will review Parts 325 and 381 Subpart S, of Title 9 of the Code of Federal Regulations relating to requirements on the movement of product between inspected facilities to determine if they reflect current Agency practice and whether they impose unnecessary burdens on industry. (FSIS 85-003)

Timetable:

Action	Date	FR Cite
Begin Review	01/15/85	
End Review	05/31/86	

Small Entity: No

Agency Contact: G. E. McEvoy, Director, Planning Office, Department of Agriculture, Food Safety and Inspection Service, Room 106, Annex Bldg., Washington, DC 20250, 202 447-3317

RIN: 0583–AA19

DEPARTMENT OF AGRICULTURE (USDA)

Food Safety and Inspection Service (FSIS)

Completed Actions

COMPLETED RULEMAKINGS

89. IMPORTED CURED PORK PRODUCTS

CFR Citation: 9 CFR 327; 9 CFR 318

Completed:

Reason	Date	FR Cite
Final Action	03/12/85	50 FR 9788

Small Entity: No

Agency Contact: Irwin Dubinsky 202 447-4735

RIN: 0583–AA09

COMPLETED REVIEWS

90. POULTRY SLAUGHTER REGULATIONS

CFR Citation: 9 CFR 381, Subpart H; 9 CFR 381, Subpart I; 9 CFR 381, Subpart J; 9 CFR 381, Subpart K

Completed:

Reason	Date	FR Cite
End Review	06/30/85	

Small Entity: No

Agency Contact: G. E. McEvoy 202 447-3317

RIN: 0583–AA18

[FR Doc. 85-[illegible] Filed 10-28-85; 8:45 am]

BILLING CODE 3410-[illegible]

DEPARTMENT OF AGRICULTURE (USDA)

Foreign Agricultural Service (FAS)

Current and Projected Rulemakings

91. REVISION OF 7 CFR PART 6, SECTION 22 IMPORT QUOTAS; CERTAIN DAIRY PRODUCTS

Legal Authority: 7 USC 624; Headnote 3(a) to Pt 3 of the Appendix of TSUSA

CFR Citation: 7 CFR 6.20 et seq

Abstract: Revise the regulation governing the importation of quota dairy products to eliminate the sections no longer needed, strengthen the sections on license eligibility and transfer of license eligibility and include new sections where required. (FAS 84-006)

Timetable:

Action	Date	FR Cite
NPRM	09/01/86	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551–AA02

92. REVISION OF PUBLIC LAW 480 REGULATIONS, 7 CFR, SECTIONS 17.1 THROUGH 17.8 AND 17.16

Legal Authority: PL 480, as amended; 7 USC 1701 et seq

CFR Citation: 7 CFR 17

Abstract: This rule would revise that part of the regulations applicable to the financing of the sale and exportation of agricultural commodities pursuant to Title I of the Agricultural Trade Development and Assistance Act of 1954, as amended. (FAS 84-008)

Timetable:

Action	Date	FR Cite
NPRM	01/31/84	49 FR 3866
Final Action	06/30/86	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551–AA04

93. REVISION OF PUBLIC LAW 480 REGULATIONS, 7 CFR SECTIONS 17.6, 17.8 AND 17.9

Legal Authority: PL 480, as amended; 7 USC 1701 et seq

CFR Citation: 7 CFR 17.6; 7 CFR 17.8; 7 CFR 17.9

Abstract: Formulation of a rule to revise that part of the regulations relating to the means by which importing governments may award commodity contracts when purchasing by invitations to bid. (FAS 84-009)

Timetable:

Action	Date	FR Cite
NPRM	06/30/86	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551–AA05

94. QUARTERLY SUGAR IMPORT FEE DETERMINATION

Legal Authority: 7 USC 624; Sec 22, Ag Adjustment Act of 1933

CFR Citation: Not applicable

Abstract: Previously, Proclamation 5164 of March 19, 1984, required the Secretary of Agriculture to announce the import fee for raw sugar each quarter according to a formula keyed to domestic spot prices as reported by the Coffee, Sugar and Cocoa Exchange in New York. The fee for refined sugar was one cent more than the raw sugar fee. However, the import fee for raw sugar has been suspended by Proclamation 5313, March 29, 1985, pending the President's response to an ITC investigation. Under this same action the fee for refined sugar has been modified so that it is fixed at one cent per pound pending the President's response to the ITC investigation. (FAS 84-005)

Timetable:

Action	Date	FR Cite
Final Action	07/05/84	49 FR 27587
Final Action	10/03/84	49 FR 39096
Final Action	01/03/85	50 FR 299
Quarterly Announcemnts	04/03/85	50 FR 13257

Next Action Undetermined

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551–AA06

95. AFRICAN FOOD ASSISTANCE PROGRAM

Legal Authority: PL 98-248

CFR Citation: Not applicable

Abstract: Invitations for offers for the purchase by the U.S. private trade from CCC of wheat, corn and rice for export to certain African countries to meet emergency food requirements. (FAS 84-014)

Timetable:

Action	Date	FR Cite
Notice	06/28/84	49 FR 26615
End Project	12/00/86	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551–AA07

96. U.S. MEAT IMPORTS

Legal Authority: PL 96-177

CFR Citation: Not applicable

Abstract: To comply with requirements of PL 96-177, The Meat Import Act of 1979, by publishing a quarterly Meat Import Estimate.

Publish in the Federal Register Quarterly Estimates of Meat Imports for 1985 and 1986. (FAS 84-012)

Timetable:

Action	Date	FR Cite
Final Action	06/28/84	49 FR 26615
1985 1st Quarterly Announcement	12/27/84	49 FR 50215
1985 2nd Quarterly Announcement	03/29/85	50 FR 12593
1985 3rd Quarterly Announcement	07/01/85	50 FR 27033
1985 4th Quarterly Announcement	09/30/85	
1986 1st Quarterly Announcement	12/31/85	
1986 2nd Quarterly Announcement	03/29/86	
1986 3rd Quarterly Announcement	06/30/86	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551-AA09

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97. AMENDMENT TO 7 CFR PART 6, SECTION 22 IMPORT QUOTAS; CERTAIN DAIRY PRODUCTS

Legal Authority: 7 USC 624; Headnote 3(a) to Pt 3 of the Appendix of the TUSA; 31 USC 9701

CFR Citation: 7 CFR 6.20 et seq

Abstract: Amend the regulations governing importation of dairy products under license to impose fees for the issuance of licenses. (FAS 84-017)

Timetable:

Action	Date	FR Cite
NPRM	07/01/85	
NPRM	09/00/85	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551-AA11

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98. EMERGENCY RELIEF FROM CERTAIN PERISHABLE PRODUCTS IMPORTED FROM ISRAEL

Legal Authority: Sec. 404, PL 98-573; 5 USC 301

CFR Citation: 7 CFR 1540

Abstract: This proposed rule establishes the procedure by which an entity representative of a U.S. industry producing perishable products can submit a request to the U.S. Department of Agriculture for emergency relief from increased, injurious imports of like products from Israel entering the U.S. at a reduced rate of duty or duty free pursuant to a trade agreement between the U.S. and Israel entered into under Section 102(b) of the Trade Act of 1974, as amended by Section 401 of the Trade and Tariff Act of 1984. (FAS 85-002)

Timetable:

Action	Date	FR Cite
NPRM	07/29/85	
Final Action	10/01/85	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551-AA12

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99. REVIEW OF THE UNITED STATES SUGAR IMPORT QUOTA SYSTEM

Legal Authority: Presidential Proclamation 4941

CFR Citation: Not applicable

Abstract: Paragraph (f) of Headnote 3, subpart A, part 10, schedule 1 of the Tariff Schedules of the United States requires the Secretary, upon consultations with concerned agencies, to review the sugar import quota, to determine the need to continue quotas and to announce the results of the review. Subsequently, the Secretary files notice of the review in the Federal Register. (FAS 84-019)

Timetable:

Action	Date	FR Cite
Notice	09/06/84	49 FR 35162
Next Announcement	09/01/85	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551-AA13

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100. ● EXPORT ENHANCEMENT PROGRAM

Legal Authority: 15 USC 714c(f); Commodity Credit Corporation Charter Act

CFR Citation: Not applicable

Abstract: Invitations for offers from the U.S. private trade for a bonus to be paid in CCC-owned commodities to make selected U.S. commodities competitive in targeted foreign countries. (FAS 85-014).

Timetable:

Action	Date	FR Cite
Notice	06/05/85	50 FR 23750
End Project	09/30/86	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551-AA15

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101. ● IMPORT LIMITATION: COUNTRY OF ORIGIN QUOTA ADJUSTMENT

Legal Authority: Presidential Proclamation 4708 issued December 11, 1979

CFR Citation: Not applicable

Abstract: Presidential Proclamation 4708 issued December 11, 1979 amended Part 3 of the Appendix to the Tariff Schedules of the United States to permit the Secretary of Agriculture to make country of origin adjustments for unlicensed quotas that will not be filled by the country of origin listed opposite the quota. This notice implements such an adjustment for condensed milk in airtight containers (TUSA Item 949.40) from Denmark. (FAS 85-015)

Timetable:

Action	Date	FR Cite
Notice	06/05/85	50 FR 23750
End Project	08/30/85	

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC20250, 202 475-3712

RIN: 0551–AA16

DEPARTMENT OF AGRICULTURE (USDA)
Foreign Agricultural Service (FAS)

Completed Actions

ACTIONS THAT STARTED AND ENDED BETWEEN ISSUES OF THE UNIFIED AGENDA

102. ● WITHIN QUARTER SUGAR IMPORT FEE ADJUSTMENT

Legal Authority: 7 USC 624; Sec 22, Ag Adjustment Act of 1933

CFR Citation: Not applicable

Abstract: Previously, Proclamation 5164 of March 19, 1984, required the Secretary of Agriculture to adjust the import fees for sugar during each quarter according to a formula keyed to domestic spot prices as reported by the Coffee, Sugar and Cocoa Exchange in New York. However, the import fee for raw sugar has been suspended by Proclamation 5313, March 29, 1985, pending the President's response to an ITC investigation. Under this same action the fee for refined sugar has been modified so that it is fixed at one cent per pound pending the President's response to the ITC investigation. (FAS 85-008)

Timetable:

Action	Date	FR Cite
Final Action	03/07/85	50 FR 9303

Small Entity: No

Agency Contact: Bob Johnson, Regulatory Coordinator, Department of Agriculture, Foreign Agricultural Service, Room 6073-S, Washington, DC 20250, 202 475-3712

RIN: 0551–AA14

[FR Doc. [illegible] Filed [illegible]]

BILLING CODE 3410-10-M

DEPARTMENT OF AGRICULTURE (USDA)
Forest Service (FS)

Current and Projected Rulemakings

103. DEBARMENT AND SUSPENSION OF TIMBER SALE CONTRACTORS

Legal Authority: 16 USC 551

CFR Citation: 36 CFR 223, Subpart C

Abstract: The objective is to set forth conditions and procedures under which purchasers of National Forest System timber may be suspended or debarred from further contracting. (FS 83-004)

Timetable:

Action	Date	FR Cite
Interim Final Rule	05/27/83	48 FR 23818
Extension of Interim Rule	07/11/84	49 FR 28241
NPRM	11/15/85	
Final Action	04/15/86	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596–AA09

104. RECOVERY OF FEDERAL COSTS ASSOCIATED WITH USER RESERVATION SYSTEMS ON SOME NATIONAL FOREST RECREATION AREAS

Legal Authority: 16 USC 551; 16 USC 472

CFR Citation: 36 CFR 291

Abstract: The objective is to recover the costs of administering a reservation system for visits to and use of highly popular National Forest System recreation areas. (FS 84-001)

Timetable:

Action	Date	FR Cite
NPRM	11/15/84	49 FR 45177
Final Action	12/01/85	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596–AA16

105. REVISION OF ADVERTISEMENTS FOR SALE OF NATIONAL FOREST TIMBER

Legal Authority: 16 USC 472a

CFR Citation: 36 CFR 223.82; 36 CFR 223.84; 36 CFR 223.88; 36 CFR 223.100

Abstract: This proposal stems from a Forest Service productivity improvement study of timber sale procedures. The objective of this proposed revision is to simplify and shorten advertisements for National Forest timber sales and to concurrently reduce the Government's advertising costs. (FS 84-011)

Timetable:

Action	Date	FR Cite
NPRM	11/02/84	49 FR 44109
Final Action	09/15/85	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P. O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596–AA18

106. ADMINISTRATION OF COOPERATIVE OR FEDERAL SUSTAINED YIELD UNITS

Legal Authority: 16 USC 583 to 583i

CFR Citation: 36 CFR 223.117

Abstract: To remove that language in existing rule that is redundant of the statute, to clarify and improve word usage, and to remove requirement for advertising sales on sustained yield units by competitive bid, which is a more stringent requirement than contained in the statute. (FS 84-013)

Timetable:

Action	Date	FR Cite
NPRM	04/01/85	
Final Action	10/30/85	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P. O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596-AA19

107. SPECIAL USES OF NATIONAL FOREST SYSTEM LANDS

Legal Authority: 16 USC 551; 16 USC 495; 16 USC 431 et seq; 7 USC 1011(d); 43 USC 1761 to 1771

CFR Citation: 36 CFR 251.50 to 251.64

Abstract: Review of existing rule which explains procedures for applying for and obtaining approval for special uses of National Forest System lands and the terms, conditions, and instruments of special use authorizations. (FS 84-014)

Timetable:

Action	Date	FR Cite
Begin Review	10/22/84	49 FR 41519
Final Action	03/00/86	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596-AA20

108. EXERCISE OF TIMBER, MINERAL AND WATER RIGHTS, OF RIGHTS-OF-WAY, AND OF RIGHTS TO USE AND OCCUPY LANDS CONVEYED TO THE U.S.

Legal Authority: 7 USC 1011; 16 USC 485; 16 USC 486; 16 USC 513; 16 USC 516

CFR Citation: 36 CFR 251.14 to 251.19

Abstract: These rules set forth conditions to be included in deeds of conveyance where grantors wish to reserve certain rights of use and occupancy. Rules will be reviewed pursuant to EO 12291. (FS 84-015)

Timetable:

Action	Date	FR Cite
Begin Review	04/00/85	
End Review	09/00/85	
Final Action	10/00/85	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596-AA21

109. MANAGEMENT OF MUNICIPAL WATERSHEDS

Legal Authority: 16 USC 551; 16 USC 472; 16 USC 1761 to 1771

CFR Citation: 36 CFR 251.9

Abstract: Regulation sets forth agency policy on entering into cooperative agreements with municipal governments or irrigation districts to protect water supplies within National Forests. Rule will be reviewed pursuant to EO 12291. (FS 84-016)

Timetable:

Action	Date	FR Cite
Begin Review	08/00/85	
End Review	09/00/85	
Final Action	12/00/85	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596-AA22

110. LAND STATUS AND TITLE RECORDS

Legal Authority: 16 USC 472; 16 USC 551; 16 USC 1603

CFR Citation: 36 CFR 200.12, (New)

Abstract: Objective is to establish that the Land Status Record is the official record of title for National Forest System lands and to set forth the authorities, policies, and procedures for recording, custody, maintenance, and use of title documents and title status reports. (FS 85-012)

Timetable:

Action	Date	FR Cite
NPRM	09/00/86	
Final Action	03/00/87	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P. O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596-AA24

111. CASH DOWN PAYMENTS, PERIODIC PAYMENTS FOR NATIONAL FOREST TIMBER CONTRACTS

Legal Authority: 16 USC 618

CFR Citation: 36 CFR 223

Abstract: The objective of the down payment and periodic payment requirements is to discourage speculative bidding on National Forest timber sales. Regulation is required by statute.

An interim policy notice is needed in order to conform to the legislated January 1, 1985, effective date for these actions. Because of the time required to prepare timber sale documents, such as the advertisement, prospectus and sample contract, and because of the 30-day advertisement period for timber sales, it is not possible to include down payment and periodic payment policies in the same manner as the proposed policy for other features of the Act. A further rulemaking on periodic payments, RIN 0596-AA33 (FS 85-014), is under way. (FS 84-020)

Timetable:

Action	Date	FR Cite
NPRM	01/17/85	50 FR 2591
Final Action	08/00/85	

Small Entity: No

Agency Contact: Marian Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, Room 809-RPE, Arlington, VA, 703 235-1488

RIN: 0596-AA29

112. ADD SECTION TO 36 CFR 251.53 - SPECIAL USES TO INCLUDE ALASKA NATIONAL INTEREST LAND AND CONSERVATION ACT AS AN AUTHORITY AND ADD REGULATION 36 CFR 251.70 ON INGRESS AND EGRESS TO ETC

Legal Authority: PL 96-487

CFR Citation: 36 CFR 251.53

Abstract: The proposed regulation will tie the granting of special-use authorizations for ingress and egress under the Alaska National Interest Lands and Conservation Act (ANILCA) to the existing authorities for granting authorizations to use or occupy National Forest lands and remove the discretionary aspects of those laws and regulations when applied to parties qualifying for access under ANILCA. (FS 86-001)

Timetable:

Action	Date	FR Cite
NPRM	11/15/85	
Final Action	09/30/86	

Small Entity: No

Additional Information: TITLE CONT: Private Lands Within the National Forests.

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596-AA31

113. ● PERIODIC PAYMENTS FOR NATIONAL FOREST TIMBER SALE CONTRACTS

Legal Authority: 16 USC 472a; 16 USC 616

CFR Citation: 36 CFR 223.81, (new)

Abstract: The Federal Timber Sale Contract Payment Modification Act requires the Forest Service to require purchasers to make periodic payments on timber sales. As established by the act, the objective of periodic payments is to discourage speculative bidding on National Forest timber sales. A soon-to-be published rule (see RIN 0596-AA29) will require cash down payments and one periodic payment requirement. However, to fully comply with the act, additional rules are required. This rule will be based on an evaluation of the effects of requiring annual payments, on consideration of procedures that would permit the pooling of payments, and on consideration of market-related contract adjustments.

There are no alternatives to issuing this rule; it is required by the Federal Timber Sale Contract Payment Modification Act. (FS 85-014)

Timetable:

Action	Date	FR Cite
NPRM	11/00/85	
Final Action	06/00/86	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596-AA23

DEPARTMENT OF AGRICULTURE (USDA)
Forest Service (FS)

Existing Regulations Under Review

114. RANGE MANAGEMENT-GRAZING AND LIVESTOCK USE AND MANAGEMENT OF WILD-FREE-ROAMING HORSES AND BURROS

Legal Authority: 43 USC 1901; 16 USC 1331 to 1340; 16 USC 551; 7 USC 1011

CFR Citation: 36 CFR 222, Subpart A; 36 CFR 222, Subpart B

Abstract: Review of Subparts A and B pursuant to EO 12291. Subpart A sets forth policy and procedure governing management of the range environment, issuance of permits for grazing and livestock use, range improvements, and establishment and functions of grazing advisory boards.

Subpart B defines categories of wild, free-roaming horses and burros, sets protection standards and provides for relation of excess animals and general administrative procedures. (FS 84-005)

Timetable:

Action	Date	FR Cite
Begin Review	10/00/85	
End Review	03/00/86	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596-AA14

115. ENTRANCE INTO PETERSBURG WATERSHED

Legal Authority: 16 USC 551; 16 USC 472; 16 USC 1761 to 1771

CFR Citation: 36 CFR 251.25

Abstract: Rule restricts entry into watershed without approval of authorized officials of Petersburg, Alaska. Rule will be reviewed pursuant to EO 12291. (FS 84-017)

Timetable:

Action	Date	FR Cite
Begin Review	08/00/85	
End Review	12/00/85	
Final Action	01/00/86	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596-AA23

116. YOUNG ADULT CONSERVATION CORPS

Legal Authority: 29 USC 801 et seq

CFR Citation: 36 CFR 216

Abstract: Describes the Young Adult Conservation Corps (YACC) program requirements and procedures for States to follow in obtaining grants to establish and administer YACC programs on non-Federal public lands.

Identical to regulations published by U.S. Department of the Interior. (FS 85-010)

Timetable:

Action	Date	FR Cite
Begin Review	04/01/86	
End Review	10/01/86	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596–AA29

117. EXPERIMENTAL AREAS AND RESEARCH NATURAL AREAS

Legal Authority: 16 USC 551

CFR Citation: 36 CFR 251.23

Abstract: Directs establishment of experimental forests and ranges and, where appropriate, research natural areas to provide base for forestry research. Sets forth management restrictions in research natural areas. (FS 86-008)

Timetable:

Action	Date	FR Cite
Begin Review	04/00/86	
End Review	12/00/86	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596–AA30

118. YOUTH CONSERVATION CORPS

Legal Authority: 16 USC 1704

CFR Citation: 36 CFR 214

Abstract: Directs the Youth Conservation Corps (YCC) program requirements and procedures for States to follow in obtaining grants to establish and administer YCC programs. Identical to USDI YCC regulations. (FS 86-009)

Timetable:

Action	Date	FR Cite
Begin Review	04/01/86	
End Review	10/01/86	

Small Entity: No

Agency Contact: Marian P. Connolly, Regulatory Coordinator, Department of Agriculture, Forest Service, P.O. Box 2417, Washington, DC 20013, 703 235-1488

RIN: 0596–AA32

DEPARTMENT OF AGRICULTURE (USDA)

Forest Service (FS)

Completed Actions

COMPLETED RULEMAKINGS

119. SALE OF LANDS PURSUANT TO SECTION 10 OF THE ACT APPROVED MARCH 1, 1911

CFR Citation: 36 CFR 291

Completed:

Reason	Date	FR Cite
Final Action	06/04/85	50 FR 23410

Small Entity: No

Agency Contact: Marian P. Connolly
703 235-1488

RIN: 0596–AA04

120. SALE OF NATIONAL FOREST TOWNSITES TO GOVERNMENT ENTITIES

CFR Citation: 36 CFR 254, Subpart B

Completed:

Reason	Date	FR Cite
Final Action	07/22/85	50 FR 29873

Small Entity: No

Agency Contact: Marian P. Connolly
703 235-1488

RIN: 0596–AA08

121. TO REQUIRE (DISQUALIFIED) HIGH BIDDERS ON TIMBER SALE CONTRACTS, TO REIMBURSE THE FOREST SERVICE FOR THE ADMINISTRATIVE COSTS INCURRED IN READVERTISING THE SALE

CFR Citation: 36 CFR 223.101

Completed:

Reason	Date	FR Cite
Withdrawn	08/06/85	

Small Entity: No

Agency Contact: Marian P. Connolly
703 235-1488

RIN: 0596–AA27

COMPLETED REVIEWS

122. ADMINISTRATION OF THE FOREST DEVELOPMENT TRANSPORTATION SYSTEM

CFR Citation: 36 CFR 212

Completed:

Reason	Date	FR Cite
End Review (notice of completion of review)	06/03/85	50 FR 23307

Small Entity: No

Agency Contact: Marian P. Connolly
703 235-1488

RIN: 0596–AA00

123. LOCATABLE MINERALS

CFR Citation: 36 CFR 228, Subpart A

Completed:

Reason	Date	FR Cite
End Review	05/00/85	

Small Entity: No

Agency Contact: Marian P. Connolly
703 235-1488

RIN: 0596–AA01

124. USE OF MOTOR VEHICLES OFF FOREST DEVELOPMENT ROADS

CFR Citation: 36 CFR 295

Completed:

Reason	Date	FR Cite
End Review	03/29/85	50 FR 12539

Small Entity: No

Agency Contact: Marian P. Connolly
703 235-1488

RIN: 0596–AA05

[FR Doc. 85-[illegible] Filed 10-28-85; 8:45 am]

BILLING CODE 3410-11-T

DEPARTMENT OF AGRICULTURE (USDA)
Office of Finance and Management (OFM)
Current and Projected Rulemakings

125. AMEND USDA UNIFORM FEDERAL ASSISTANCE REGULATIONS

Significance: Regulatory Program

Legal Authority: 5 USC 301

CFR Citation: 7 CFR 3016

Abstract: This proposal will bring USDA regulations into compliance with revisions to the Office of Management and Budget Circular A-102, "Uniform requirements for grants to States and local governments." (OFM 84-001)

Timetable:

Action	Date	FR Cite
NPRM	10/00/85	
Final Action	02/00/86	

Small Entity: No

Agency Contact: Lyn Zimmerman, Supervisory Program Analyst, Department of Agriculture, Office of Finance and Management, Room 2117 Auditors Building, Washington, DC 20250, 202 382-1553

RIN: 0505-AA01

126. AMEND USDA UNIFORM FEDERAL ASSISTANCE REGULATIONS, 7 CFR 3015, SUBPART I, AUDITS

Legal Authority: 5 USC 301; PL 98-502

CFR Citation: 7 CFR 3015, Subpart I

Abstract: This amendment implements the Single Audit Act of 1984 (P.L. 98-502). It establishes uniform audit requirements for State and local governments and Indian tribes that receive Federal assistance and defines Federal responsibilities for implementing and monitoring those requirements (OFM 85-001).

Timetable:

Action	Date	FR Cite
Interim Final Rule	07/16/85	50 FR 28759
Final Action	11/00/85	

Small Entity: No

Agency Contact: Lyn Zimmerman, Supervisory Program Analyst, Department of Agriculture, Office of Finance and Management, Room 2117 Auditors Building, Washington, DC 20250, 202 382-1553

RIN: 0505-AA03

127. AMEND USDA UNIFORM FEDERAL ASSISTANCE REGULATIONS, 7 CFR 3015 SUBPART Q, APPLICATION FOR FEDERAL ASSISTANCE

Legal Authority: 5 USC 301; PL 95-113, Sec 1472

CFR Citation: 7 CFR 3015

Abstract: This regulation will provide USDA agencies with uniform standards for a competitive award process for grants and cooperative agreements in research, extension, and teaching programs. This regulation codifies current USDA policy as set forth in Secretary's Memorandum 5000-2 which was issued August 13, 1984. (OFM 84-004)

Timetable:

Action	Date	FR Cite
NPRM	04/16/85	50 FR 15433
Final Action	10/00/85	

Small Entity: No

Agency Contact: Lyn Zimmerman, Supervisory Program Analyst, Department of Agriculture, Office of Finance and Management, Room 2117 Auditors Building, Washington, DC 20250, 202 382-1553

RIN: 0505-AA04

[FR Doc. [illegible] Filed [illegible]]

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DEPARTMENT OF AGRICULTURE (USDA)
Office of the Secretary (AgSEC)
Current and Projected Rulemakings

128. RESCIND UNIFORM RELOCATION REGULATIONS

Legal Authority: PL 91-646; 84 Stat. 1894; 42 USC 4601 et seq

CFR Citation: 7 CFR 21

Abstract: This regulation will rescind Department regulations implementing uniform relocation assistance and real property acquisition policies Act of 1970 and establish new regulations to conform with those to be issued by the Department of Transportation as Federal lead agency. (OO 84-002)

Timetable:

Action	Date	FR Cite
NPRM	05/28/85	50 FR 21711
Final Action	05/27/86	

Small Entity: No

Agency Contact: Charles A. Bucy, Deputy Director, Department of Agriculture, Office of the Secretary, Office of Operations, Room 113-W, Admin. Bldg., Washington, DC 20250, 202 447-2582

RIN: 0503-AA02

DEPARTMENT OF AGRICULTURE (USDA)
Office of the Secretary (AgSEC)
Completed Actions

COMPLETED RULEMAKINGS

129. ACQUISITION REGULATION

CFR Citation: 48 CFR Chapter 4

Completed:

Reason	Date	FR Cite
Final Action	04/10/85	50 FR 14195

Small Entity: No

Agency Contact: Charles A. Bucy 202 447-2582

RIN: 0503-AA01

[FR Doc. [illegible] Filed [illegible]]

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DEPARTMENT OF AGRICULTURE (USDA)
Rural Electrification Administration (REA)

Completed Actions

COMPLETED RULEMAKINGS

130. REA BULLETIN 320-23, CONSTRUCTION CERTIFICATION PROCEDURES FOR DESIGNATED TELEPHONE BORROWERS

CFR Citation: 7 CFR 1785, (Proposed)

Completed:

Reason	Date	FR Cite
Nonmajor – delete from Agenda	10/19/85	

Small Entity: No

Agency Contact: Blaine Stockton, Jr.
202 382-5532

RIN: 0572–AA04

131. REA BULLETIN 50-1, ELECTRIC TRANSMISSION SPECIFICATIONS AND DRAWINGS (T-805)

CFR Citation: 7 CFR 1736.97

Completed:

Reason	Date	FR Cite
Nonmajor – delete from Agenda	08/27/85	

Small Entity: No

Agency Contact: Blaine Stockton, Jr.
202 382-5532

RIN: 0572–AA06

132. REA BULLETIN 50-4, SPECIFICATIONS AND DRAWINGS FOR 34.5/19.9 KV DISTRIBUTION LINE CONSTRUCTION (D-801)

CFR Citation: 7 CFR 1736.97

Completed:

Reason	Date	FR Cite
Nonmajor – delete from Agenda	08/27/85	

Small Entity: No

Agency Contact: Blaine Stockton, Jr.
202 382-5532

RIN: 0572–AA13

COMPLETED REVIEWS

133. REA BULLETIN 345-67, REA SPECIFICATION FOR FILLED TELEPHONE CABLE (PE-39)

CFR Citation: 7 CFR 1772.97

Completed:

Reason	Date	FR Cite
Nonmajor – delete from Agenda	08/27/85	

Small Entity: No

Agency Contact: Blaine Stockton, Jr.
202 382-5532

RIN: 0572–AA05

134. REA BULLETIN 345-78, REA SPECIFICATION FOR SPRING ACTION TYPE BONDING CONNECTORS WITHIN BURIED PLANT HOUSINGS (PE-67)

CFR Citation: 7 CFR 1772.97

Completed:

Reason	Date	FR Cite
Nonmajor – delete from Agenda	08/27/85	

Small Entity: No

Agency Contact: Blaine Stockton, Jr.
202 382-5532

RIN: 0572–AA07

135. REA BULLETIN 345-6, REA STANDARD FOR SPLICING PLASTIC-INSULATED CABLES (PC-2)

CFR Citation: 7 CFR 1772.97

Completed:

Reason	Date	FR Cite
Nonmajor – delete from Agenda	08/27/85	

Small Entity: No

Agency Contact: Blaine Stockton, Jr.
202 382-5532

RIN: 0572–AA08

136. REA BULLETIN 345-22, REA SPECIFICATION FOR VOICE FREQUENCY LOADING COILS (PE-26)

CFR Citation: 7 CFR 1772.97

Completed:

Reason	Date	FR Cite
Nonmajor – delete from Agenda	08/27/85	

Small Entity: No

Agency Contact: Blaine Stockton, Jr.
202 382-5532

RIN: 0572–AA09

137. REA BULLETIN 345-65, REA SPECIFICATION FOR CABLE SHIELD BONDING CONNECTORS (PE-33)

CFR Citation: 7 CFR 1772.97

Completed:

Reason	Date	FR Cite
Final Action	03/22/85	50 FR 11487

Small Entity: No

Agency Contact: Blaine Stockton, Jr.
202 382-5532

RIN: 0572–AA10

138. REA BULLETIN 345-72, REA SPECIFICATION FOR FILLED SPLICE ENCLOSURES (PE-74)

CFR Citation: 7 CFR 1772.97

Completed:

Reason	Date	FR Cite
Non-major – delete from Agenda	08/27/85	

Small Entity: No

Agency Contact: Blaine Stockton, Jr.
202 382-5532

RIN: 0572–AA15

[FR Doc. [illegible] Filed [illegible]]
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DEPARTMENT OF AGRICULTURE (USDA)
Soil Conservation Service (SCS)

Current and Projected Rulemakings

139. SOIL SURVEYS

Legal Authority: Part of Agriculture Appropriation Act of 1896; PL 74-46 The Soil Conservation and Domestic Allotment Act; PL 89-560 Soil Surveys for Resource Planning and Development; 42 USC 3271; 42 USC 3274

CFR Citation: 7 CFR 611

Abstract: Prescribes the policy on soil survey operations including cooperative relationships with state agencies, standards, guidelines and plans on survey operations, distribution of soil survey information, and cartographic operations services furnished. (SCS 83-006)

Timetable:

Action	Date	FR Cite
End Review	11/00/84	
Final Action	09/00/85	

Small Entity: No

Agency Contact: Wayne Maresch, Regulatory Coordinator, Department of Agriculture, Soil Conservation Service, Room 6004-South Bldg., Washington, DC 20013, 202 447-4811

RIN: 0578-AA09

140. PRIME AND UNIQUE FARMLANDS

Legal Authority: 16 USC 590(a to f); 42 USC 4321 et seq; PL 95-87

CFR Citation: 7 CFR 657

Abstract: Prescribes SCS policy on the development and maintenance of an inventory of prime and unique farmland of the Nation including the criteria and characteristics used in the identification of such lands.

Timetable:

Action	Date	FR Cite
Final Action	01/00/87	

Small Entity: No

Agency Contact: Wayne Maresch, Regulatory Coordinator, Department of Agriculture, Soil Conservation Service, Room 6004-South Bldg., Washington, DC 20013, 202 447-4811

RIN: 0578-AA10

DEPARTMENT OF AGRICULTURE (USDA)
Soil Conservation Service (SCS)
Existing Regulations Under Review

141. SNOW SURVEYS AND WATER SUPPLY FORECASTS

Legal Authority: Secretary's Memorandum 870 - July 1, 1940; Reorganization Plan No. 2 of 1953

CFR Citation: 7 CFR 612

Abstract: Sets forth policy and procedures for the administration of a cooperative snow survey and water supply forecast program, including the steps involved in carrying out the program. Sets out data collected and forecasts made, and eligible users of the data.

Timetable:

Action	Date	FR Cite
End Review	07/00/86	
Final Action	01/00/87	

Small Entity: No

Agency Contact: Wayne Maresch, Regulatory Coordinator, Department of Agriculture, Soil Conservation Service, Room 6004-South Bldg., Washington, DC 20013, 202 447-4811

RIN: 0578-AA01

142. ● RELOCATION ASSISTANCE

Legal Authority: 42 USC 4601 et seq; PL 91-646

CFR Citation: 7 CFR 652

Abstract: Prescribes the policies and procedures for the implementation of the Uniform Relocation Assistance and Real Property Acquisition Policies Act (42 USC 4601 et seq.) pertaining to the treatment of persons displaced from their homes, businesses, or farms because of federal financially assisted projects. (SCS 85-001)

Timetable:

Action	Date	FR Cite
End Review	10/30/85	
Final Action	01/31/86	

Small Entity: No

Agency Contact: Wayne Maresch, Regulatory Coordinator, Department of Agriculture, Soil Conservation Service, Room 6004-South Bldg., Washington, DC 20013, 202 447-4811

RIN: 0578-AA12

DEPARTMENT OF AGRICULTURE (USDA)
Soil Conservation Service (SCS)
Completed Actions

COMPLETED RULEMAKINGS

143. ACQUISITION OF REAL PROPERTY UNDER FEDERALLY ASSISTED PROGRAMS

CFR Citation: 7 CFR 661

Completed:

Reason	Date	FR Cite
Final Action	03/27/83	48 FR 12034

Small Entity: No

Agency Contact: Wayne Maresch 202 447-4811

RIN: 0578-AA08

COMPLETED REVIEWS

144. LONG TERM CONTRACTING

CFR Citation: 7 CFR 630

Completed:

Reason	Date	FR Cite
End Review	06/00/85	

Small Entity: No

Agency Contact: Wayne Maresch 202 447-4811

RIN: 0578-AA03

[FR Doc. [illegible] Filed [illegible] am]

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ADVISORY COMMITTEES

Mr. Whitten. Please provide for the record a sub-object class display of other services for advisory committees for fiscal year 1985, 1986, and 1987.

[The information follows:]

USDA ADVISORY COMMITTEES—OBLIGATIONS IN OBJECT CLASS 2500 (OTHER SERVICES) FY 1985, FY 1986, AND FY 1987

Subobject code	Description	FY 1985 actual	FY 1986 estimate	FY 1987 estimate
2510	Contractual services performed by other agencies, excluding GSA, SLUC and FTS charges.	27,000	23,000	20,000
2520	Personnel related expenditures	3,913	3,500	3,600
2530	Repair, alterations, or maintenance of equipment or structures	3,000	2,000	2,000
2540	Contractual services other, e.g. architectural and engineering, research, commercial ADP services.	88,000	62,000	65,000
2550	Agreements, e.g. cooperative agreements between Forest Service, state agencies or private parties.	25,000	18,500	18,500
2570	Miscellaneous services, e.g., publication notices, advertising, AS-76 contractual, GSA motor pool.	154,085	113,500	114,400
2580	Fees, e.g., money order fees, bank services fees, participation fees.	3,400	2,500	2,500
	Total	304,398	225,000	226,000

STAFFING

Mr. Whitten. Please provide for the record, by Advisory Committee, the number of staff-years or portions of staff-years and cost charged to the various Advisory Committees for fiscal year 1985 and the estimates for fiscal years 1986 and 1987.

[The information follows:]

RESOURCES FOR USDA ADVISORY COMMITTEES

POLICY AREA AND COMMITTEE TITLE	1985 ACTUAL SY	1985 ACTUAL FUNDS	1986 ESTIMATED SY	1986 ESTIMATED FUNDS	1987 ESTIMATED SY	1987 ESTIMATED FUNDS
Food and Consumer Services:						
National Advisory Councils on:						
Child Nutrition	.64	$30,192	.57	$30,369	--	1/
Maternal, Infant and Fetal Nutrition	.69	34,744	.65	31,531	--	1/
Joint Nutrition Monitoring Evaluation Committee	1.00	50,000	1.00	33,100	--	--
Dietary Guidelines Advisory Committee	--	8,519	--	--	--	--
Total	2.33	123,455	2.22	95,000	--	--
Science and Education:						
Nat. Ag. Research & Extension Users Adv. Board	1.40	120,235	2.00	199,300	2.00	205,000
National Arboretum Advisory Council	.07	8,519	.07	11,200	.07	11,670
Human Nutrition Board of Scientific Counselors	.30	20,287	--	36,500	--	36,470
National Plant Genetic Resources Board	.07	19,121	.07	20,000	.07	20,319
Policy Adv. Comm. for S & E Research Grants Program	.10	10,420	.10	18,200	.10	18,900
Animal Health Science Research Advisory Board	.20	59,100	.20	19,300	.20	17,200
Cooperative Forestry Research Advisory Council	.30	13,500	.30	40,100	.30	41,200
Tech. Adv. Comm. for S & E Grants Program	4.70	365,914	4.40	361,373	5.70	356,980
Committee of Nine	.30	28,600	.30	29,800	.30	30,500
Total	7.44	645,696	7.34	735,773	8.74	738,239
Marketing and Inspection Services:						
Grain Standards Act Advisory Committee	.20	34,515	.35	50,601	.35	51,694
Nat. Adv. comm. on Meat & Poultry Inspection	.25	25,840	.25	25,000	.25	25,597
Advisory Committees on:						
Foreign Animal and Poultry Diseases	.30	15,137	.30	27,984	.30	27,999
Swine Health Protection	.05	9,295	.05	12,760	.05	13,800
Instruments & Standards for Cotton	.10	13,575	.12	25,472	.12	26,285
Gen. Conference Comm. of the Nat. Poultry Imp. Plan	.04	6,135	.04	11,984	.04	7,000
Plant Variety Protection Board	.05	12,730	.04	6,360	.04	6,551
Total	.99	117,227	1.15	160,161	1.15	158,916
International Affairs and Commodity Programs:						
Agricultural Policy Advisory Committee for Trade	.25	14,000	.25	14,000	.25	14,000
Technical Advisory Committees for Trade in:						
Cotton	.25	13,000	.25	13,000	.25	13,000
Fruits & Vegetables	.25	14,000	.25	13,000	.25	13,000
Grain & Feed	.25	13,000	.25	14,000	.25	14,000
Livestock & Livestock Products	.25	14,000	.25	14,000	.25	14,000
Oilseeds & Oilseed Products	.25	13,000	.25	13,000	.25	13,000
Poultry & Eggs	.25	13,000	.25	13,000	.25	13,000
Tobacco	.25	13,000	.25	13,000	.25	13,000
Dairy Products	.25	13,000	.25	13,000	.25	13,000
Agribusiness Promotion Council	.30	14,525	.30	14,000	.30	14,000
Agricultural Export Enhancement Advisory Group	--	1,636	--	10,000	--	10,000
Total	2.55	136,161	2.55	144,000	2.55	144,000
Small Community and Rural Development:						
National Advisory Council on Rural Development	--	--	.25	85,600	.50	85,600
Economics:						
National Ag. Cost of Production Standards Rev. Bd.	.25	22,964	.25	30,000	.25	30,000
Departmental Administration:						
Citizen's Advisory Committee on Equal Employment	.75	58,516	.50	64,466	.50	66,245
Agricultural Structures Planning Task Force	.10	13,149	--	--	--	
General Management and Administrative Costs	--	78,595	--	--	--	--
Undistributed Committee Expenses	--	109,332	--	--	--	--
New Requirements and Contingencies	--	--	--	--	--	100,000
TOTAL, Advisory Committees	14.41	$1,305,095	14.36	$1,315,000	13.69	$1,323,000

1/ The Department is recommending that the sections of the actu authorizing this committee be repealed.

Mr. Whitten. Please explain the entry for new requirements and contingencies at the bottom of the table on page 2-36 regarding resource estimates for USDA advisory committees.

Mr. Franke. This is a reserve to cover the cost of committees that were not established at the time the budget was prepared as well as unanticipated increases in committee budgets.

NATIONAL ADVISORY COUNCIL FOR RURAL DEVELOPMENT

Mr. Whitten. Why is the Department proposing to maintain an Advisory Committee of 58 members on rural development when it has proposed to eliminate the rural development programs?

Mr. Franke. Although the Office of Rural Development Policy has been abolished, a number of rural development programs in other agencies will continue in effect. We believe that this committee serves an important function and should be continued. It is currently being rechartered to have 20 members.

Mr. Whitten. Please explain why there is no entry in the Advisory Committee pages 2-36 for either members or funding in the fiscal year 1985 column for the National Advisory Council on Rural Development.

Mr. Franke. The Council did not meet during fiscal year 1985. Consequently, no members and no expenditure of funds were shown in the table.

Mr. Whitten. Please provide for the record the current membership of the Committee, identifying the members and organizations represented, and the names and salaries of any paid staff.

Mr. Franke. The National Advisory Council on Rural Development is in the process of being rechartered, and does not have a current membership. No permanent staff is assigned to the Council at this time.

Mr. Whitten. When does the charter for the National Advisory Council on Rural Development expire?

Mr. Franke. The previous charter was terminated as required when a committee has not met in two years. Advisory committees are normally chartered for a two-year period.

ADVISORY COUNCILS ON CHILD NUTRITION AND MATERNAL, INFANT AND FETAL NUTRITION

Mr. Whitten. On page 2g-19 of the explanatory notes reference is made to legislation proposed by the Administration to eliminate both the National Advisory Council on Child Nutrition and National Advisory Council on Maternal, Infant, and Fetal Nutrition. Does the legislation have the support of the Advisory Councils or is the proposal to eliminate them solely a decision of the Administration?

Mr. Franke. The proposal to eliminate these Councils is the decision of the Administration.

Mr. Whitten. Please provide for the record the membership of each of the Advisory Councils, including the organization represented by the members.

[The information follows:]

MEMBERS OF THE 1986 NATIONAL ADVISORY COUNIL ON CHILD NUTRITION

Member	Position on Council	Term Expiration
John W. Bode, Assistant Secretary for Food and Consumer Services, USDA	Chairperson	None
Robert E. Leard, Administrator Food and Nutrition Service, USDA	Vice Chairperson	None
George A. Braley, Deputy Administrator Special Nutrition Programs Food and Nutrition Service, USDA	Executive Secretary	None
Andrew P. Hornsby, Jr., Administrator Mid-Atlantic Regional Office Food and Nutrition Service, USDA	Agency Representative	None
Al Falatko, Program Analyst U.S. Department of Education	Agency Representative	None
Gerti B. Thomas, Director Alameda County Cooperative Extension University of California	Nutrition Expert	12/31/87
Rene Weber, Director of Food Services Cleveland Catholic Diocese	Urban Food Service Director	12/31/87
Beverly Wheatley Louisville, Kentucky	Private Citizen	12/31/87
Judy Wolfersberger Pt. Pleasant Beach, New Jersey	Private Citizen	12/31/86
Dr. John J. Ward, Superintendent of Schools, Rumson-Fair Haven Regional High School Pennington, New Jersey	School Administrator	12/31/86
Kim Rideout Chester Public School System Chester, Virginia	Vocational Education Worker	12/31/86
Frances Winslow Elizabeth City-Pasquotank County Public School System Hertford, North Carolina	Rural School Food Services Director	12/31/86

Vacant, Student (2)
Vacant, State Director
Vacant, State Superintendent
Vacant, Child Development Specialist
Vacant, School Food Service Management Specialist

MEMBERS OF THE NATIONAL ADVISORY COUNIL ON MATERNAL, INFANT AND FETAL NUTRITION

Member	Position on Council	Term Expiration
John W. Bode, Assistant Secretary for Food and Consumer Services, USDA	Chairperson	None
George A. Braley, Deputy Administrator Special Nutrition Programs Food and Nutrition Service, USDA	Vice Chairperson	None
Parick J. Clerkin Supplemental Food Programs Division Food and Nutrition Service, USDA	Executive Secretary	None
William H. Webster, Analyst State Department of Healthion Concord, New Hampshire	State WIC Program Fiscal Director	9/30/87
Particia B. Pearson, M.P.H. Vermond Department of Health Burlington, Vermont	State Health Officer	9/30/87
Mary K. Bell, WIC Director Northwest Regional Health and Environment Union City, Tennessee	WIC Project Director in a Rural Area	9/30/87
Ricardo Lucero, Director Sunrise Community Health Center Greeley, Colorado	Representative of Organization Serving Migrants	9/30/86
Gertrude M. Smith Baltimore, Maryland	Parent Participant	9/30/87
Carium Joseph, M.D. Charleston, South Carolina	Obstetrician	9/30/87
Betty B. Lafone, Director of Consumer Affairs Harris-Teeter Super Markets, Inc. Charlotte, North Carolina	Retail Sales Representative	9/30/87
Allan S. Noonan, M.D. Health Resources and Services Administration Department of Health and Human Services	Agency Representative	None
E. Ann Prendergast, R.D., M.P.H. Public Health Service Department of Health and Human Services	Agency Representative	None

MEMBERS OF THE NATIONAL ADVISORY COUNIL ON MATERNAL, INFANT AND FETAL NUTRITION, Continued

Member	Position on Council	Term Expiration
Charles Woods, Executive Director Comunity Good Bank, Inc. Tucson, Arizona	Non-Profit Public Interest Organizaition Representative	9/30/87

Vacant, State WIC Program Director
Vacant, State Director of a CSF Program
Vacant, WIC Program Project Direct in an Urban Area
Vacant, State Public Health Nutrition Director
Vacant, Official from a State Agency Serving Predominately Indians
Vacant, Parent Participant in the WIC Program
Vacant, Parent Participant in the CSF Program
Vacant, Pediatrician

DIETARY GUIDELINES ADVISORY COMMITTEE

Mr. **Whitten**. Please provide for the record a copy of the April 10, 1985 report entitled "Report on the Dietary Guidelines for Americans." Why was this Committee terminated?

Mr. **Franke**. The Dietary Guidelines Advisory Committee completed its work with the issuance of its report. It continued to advise the Department throughout the preparation of the Dietary Guidelines bulletin. In its cover letter to the Secretary, Committee members asked that the Committee be reconvened in five to ten years to review these Guidelines again in light of new data collected in the interim. The Department has agreed to charter another Committee when enough new data is available to make this action necessary. I will be glad to provide a copy of the Committee's report.

[The information follows:]

Dietary Guidelines Advisory Committee

REPORT OF THE DIETARY GUIDELINES ADVISORY COMMITTEE on the DIETARY GUIDELINES FOR AMERICANS

To the Secretary of Agriculture and the
Secretary of Health and Human Services

Published by U.S. Department of Agriculture
Human Nutrition Information Service

April 10, 1985

United States
Department of
Agriculture

Human Nutrition
Information
Service

Belcrest Road
Hyattsville, Maryland
20782

April 10, 1985

Honorable Margaret M. Heckler
Secretary of Health and Human Services
Washington, D.C. 20201

Honorable John R. Block
Secretary of Agriculture
Washington, D.C. 20250

Dear Mrs. Heckler and Mr. Block:

The Dietary Guidelines Advisory Committee which was appointed to review the scientific accuracy of the 1980 joint publication of the Department of Agriculture and the Department of Health and Human Services, "Nutrition and Your Health: Dietary Guidelines for Americans," has concluded its task. A copy of the report of this committee, which includes proposed revisions in the 1980 publication and key scientific references on which the revisions are based, is enclosed.

Print copies of the report of the Dietary Guidelines Advisory Committee will be available shortly from the Department of Agriculture's Human Nutrition Information Service, 6505 Belcrest Road, Hyattsville, MD 20782. In addition to the revisions suggested in the Dietary Guidelines publication, the Dietary Guidelines Advisory Committee makes the following recommendations to the Departments:

1. The revised Dietary Guidelines should be used as the basis for policy development related to federal nutrition education and information programs of both Departments.

2. The Departments should publish and plan a broad public distribution of a publication presenting the revised Dietary Guidelines.

3. The Departments should convene an advisory committee of nationally recognized nutrition authorities to review these Dietary Guidelines for scientific accuracy and appropriateness on a 5- to 10-year cycle.

4. The Department of Agriculture should continue work aimed at developing a system of simple food groupings consistent with the currently available food supply that can be used in nutrition education programs related to the Dietary Guidelines concepts.

Respectfully submitted,

Isabel D. Wolf

ISABEL D. WOLF
Administrator, Human Nutrition Information Service
Executive Secretary, Dietary Guidelines Advisory Committee

Enclosure

PREFACE

"Nutrition and Your Health: Dietary Guidelines for Americans" (USDA HG No. 232) was published jointly by the Departments of Agriculture and Health and Human Services in February 1980. The bulletin recognizes that we do not know enough about nutrition to identify an "ideal" diet for each individual and that food alone cannot make you healthy. Its seven guidelines feature variety and moderation in diet:

1. Eat a variety of foods
2. Maintain ideal weight
3. Avoid too much fat, saturated fat, and cholesterol
4. Eat foods with adequate starch and fiber
5. Avoid too much sugar
6. Avoid too much sodium
7. If you drink alcohol, do so in moderation

On February 23, 1983, U.S. Department of Agriculture Secretary John R. Block established a Dietary Guidelines Advisory Committee (47 Fed. Reg. 55, 508 (1982)) in accordance with a stipulation of the Senate Appropriations Committee. The Committee was to be appointed for a two-year period. The purpose of the Committee was to review the scientific literature affecting dietary guidance for the public, to review comments received from the public about the Dietary Guidelines bulletin, and to make any recommendations that the Committee deemed appropriate to the Secretaries of the two Departments. The review was considered to be desirable because of continued intense interest in the information and because the state of knowledge in nutrition and dietary planning continues to advance.

The Committee was composed of nine scientists specializing in the field of human nutrition who were appointed by the Secretary. Three were representatives of the Department of Health and Human Services, three were representatives of the Department of Agriculture, and three were selected from a list of nominees recommended by the National Academy of Sciences. They were:

Dr. Henry Kamin
Professor of Biochemistry
Department of Biochemistry
Duke University
Durham, North Carolina

Dr. David Kritchevsky
Associate Director
Anatomy and Biology
The Wistar Institute
Philadelphia, Pennsylvania

Dr. Robert E. Olson
Professor of Medicine and
Pharmacological Sciences
State University of New York
at Stony Brook
Stony Brook, New York

Dr. Lester Salans
Professor of Medicine
Mt. Sinai Medical School
New York, New York

Dr. Robert Levy
Professor of Medicine
College of Physicians
and Surgeons
Columbia University
New York, New York

Dr. Bernard Schweigert
Chairman, Department of Food
Science and Technology
University of California, Davis
Davis, California

Dr. Sanford A. Miller
Director, Center for Food
Safety & Applied Nutrition
Food & Drug Administration
Washington, DC

Dr. Fredrick Stare
Professor Emeritus
School of Public Health
Harvard University
Boston, Massachusetts

Dr. Judith S. Stern
Professor of Nutrition
Department of Nutrition
University of California, Davis
Davis, California

Dr. Bernard Schweigert was appointed Committee Chairman and the Administrator of USDA's Human Nutrition Information Service, Ms. Isabel D. Wolf, served as Executive Secretary.

The Chairman defined the charge of the Committee as threefold:

1. To review the latest scientific information to ascertain what, if any, additions or modifications were appropriate for the Dietary Guidelines as published in 1980;
2. To review comments submitted by the public since the Dietary Guidelines were published to ascertain what, if any, modifications were appropriate based on these comments; and
3. To recommend to the Secretaries of Agriculture and Health and Human Services any revisions to the Dietary Guidelines as published in 1980 and to provide references to the scientific literature that help to substantiate such revisions.

Written comments about the guidelines from the public were invited. Hundreds of comments were received and all were reviewed and considered by the Committee.

The Committee held four meetings, all of which were announced in the Federal Register and were open to the public: July 20-21, 1983; December 13-14, 1983; May 22, 1984; and December 19, 1984.

Seven subcommittees were formed, each to be responsible for the review of scientific literature and comments and the presentation of draft text for a single guideline. The subcommittees for the seven guidelines were as follows:

1. Olson, Kamin, Stare
2. Stern, Stare, Salans
3. Kritchevsky, Levy, Olson
4. Kritchevsky, Salans, Kamin
5. Salans, Miller, Kritchevsky
6. Miller, Stern, Levy
7. Stare, Olson, Stern

Each of the nine Committee members reviewed and commented on draft text of all seven guidelines. The recommended revision of the Dietary Guidelines presented in this report, therefore, takes into account the views of all members of the Committee.

The revision of "Nutrition and Your Health: Dietary Guidelines for Americans" proposed in this report reflects the most recent nutrition research. It is expected that the revised guidelines, like the 1980 edition of the guidelines, will be used widely as the basis for dietary guidance for the general public. In the interest of consistency, the general format of the seven guidelines and the extent to which nutritional issues were covered in the 1980 edition were retained in the revision. However, modifications that combine certain closely related guidelines and that extend the information presented could have been justified.

PROPOSED REVISION OF GUIDELINES

Nutrition and Your Health
Dietary Guidelines for Americans

What should you eat to stay healthy?

The life expectancies, ~~body~~ sizes, and good health of Americans seem to indicate that most diets are adequate. Foods we have to choose from are varied, plentiful, and wholesome.

Even so, hardly a day goes by without someone trying to tell us what we should and should not eat. Newspapers, magazines, books, radio, and television give us lots of advice. Unfortunately, much of it is confusing.

Some of this confusion exists because we don't know enough about nutrition to identify an "ideal diet" for each individual. People differ--and their food needs differ depending on age, sex, body size, physical activity, and other conditions such as pregnancy and illness. In those chronic conditions where diet may be important--heart attacks, high blood pressure, strokes, dental caries, diabetes, osteoporosis, and some forms of cancer--the roles of specific dietary substances have not been fully defined.

Research seeks more information about the amounts of essential nutrients people need. Also important is research to show better the diet's role in certain chronic diseases. Extensive attention has been devoted recently, for example, to the possible effects of certain dietary substances on osteoporosis, cancer, and heart disease.

But what about advice for today? The guidelines below tell how to choose and prepare foods for you and your family. This advice is the best we can give based on the nutrition information we have now.

The first two guidelines form the framework for a good diet: "Eat a variety of foods" that provide enough of essential nutrients and amounts of energy (calories) to "maintain reasonable weight." The next five guidelines recognize special characteristics of good diets. They suggest that you get adequate starch and fiber and avoid too much fat, sugar, sodium, and alcohol.

The Recommended Dietary Allowances (RDA) are quantity goals for energy, protein, and some minerals and vitamins. Specific quantity goals for other dietary substances, such as fats and dietary fiber, must await further research. However, for the U.S. population as a whole, increases in our current intakes of starch and fiber and reduction of total calories primarily from dietary fats, sugars, and alcohol is sensible. These suggestions are especially appropriate for people who have other risk factors for chronic diseases, such as family history of obesity, premature heart disease, diabetes, high blood pressure, high blood cholesterol levels, or for those who smoke.

The guidelines are suggested for most Americans--those who are already healthy. They do not apply to people who need special diets because of diseases or conditions that interfere with normal nutrition. These people may require special instruction from trained dietitians, in consultation with their own physicians.

No guidelines can guarantee health and well-being. Health depends on many things, including heredity, lifestyle, personality traits, mental health and attitudes, and environment, in addition to diet.

Food alone cannot make you healthy. But good eating habits based on moderation and variety can help keep you healthy and even improve your health.

Dietary Guidelines for Americans

- Eat a variety of foods
- Maintain reasonable weight
- Avoid too much fat, saturated fat, and cholesterol
- Eat foods with adequate starch and fiber
- Avoid too much sugar
- Avoid too much sodium
- If you drink alcoholic beverages, do so in moderation--and don't drive

EAT A VARIETY OF FOODS

You need over 40 different nutrients to be and stay healthy. These include vitamins and minerals, amino acids (from proteins), essential fatty acids (from certain vegetable oils), and sources of energy (calories from carbohydrates, fats, and proteins). These nutrients are present in adequate quantities in the foods contained in a well-balanced diet.

Most foods contain more than one nutrient. For example, milk provides proteins, fats, sugar, riboflavin and other B vitamins, vitamin A, calcium, phosphorus, and other nutrients; meat provides protein, B-complex vitamins--particularly B_6 and B_{12}--and iron and zinc in important amounts.

No single food supplies all of the essential nutrients in the amounts that you need. Milk for instance, contains very little iron and meat provides little calcium. You should, therefore, eat a variety of foods to secure an adequate diet. With a variety of foods, you are more likely to get all the nutrients you need.

One way to assure variety, and with it a well-balanced diet, is to select foods each day from each of the major food groups. These groups include: fruits and vegetables; cereals and other foods made from grains, such as breads; meats, fish, poultry, eggs, peas, and beans; and milk and dairy products such as cheese and yogurt. It is important not only to select foods from each of the major food groups but also to select a variety of foods daily from each of these food groups.

Fruits and vegetables are good sources of vitamin A, vitamin C, and folic acid, of fiber, and of many minerals. Whole-grain and enriched breads, cereals and other grain products provide B vitamins, iron, protein, and energy. Meats, poultry, fish, and eggs supply protein, fat, iron, and other minerals as well as several vitamins, including thiamin and vitamin B_{12}. Dairy products are major sources of calcium and many other nutrients. Recent research has given emphasis to the importance of calcium in preventing osteoporosis.

TO ASSURE YOURSELF AN ADEQUATE DIET

Eat a variety of foods daily in adequate amounts including selections of:

- Fruits
- Vegetables
- Whole-grain and enriched breads, cereals, and other products made from grains
- Milk, cheese, yogurt, and other products made from milk
- Meats, poultry, fish, eggs
- Legumes (dry peas and beans)

The number and size of portions should be adjusted to reach and maintain a reasonable body weight.

There are no known advantages to consuming excessive amounts of any nutrient. You will rarely need to take vitamin or mineral supplements if you eat a variety of foods. There are a few important exceptions to this general statement:

- Women in their childbearing years may need to take iron supplements to replace the iron they lose with menstrual bleeding. Women who are no longer menstruating should not take iron supplements routinely.

- Women who are pregnant or who are breast-feeding need more of many nutrients, especially iron, folic acid, vitamin A, calcium, and sources of energy. Detailed advice should come from their physicians and dietitians.

- Infants also have special nutritional needs. Infants should be breast-fed unless there are special problems. The nutrients in human breast milk tend to be more available than those in cow's milk. In addition, breast milk serves to transfer immunity to some diseases from the mother to the infant.

  Normally, most babies are not given solid foods until they are 3 to 6 months old. At that time, other foods can be introduced gradually. Prolonged breast- or bottle-feeding--without solid foods or supplemental iron--can result in iron deficiency.

  You should not add salt or sugar to the baby's foods. Infants do not need these inducements if they are really hungry. The foods are nourishing and extra flavoring with salt and sugar is not necessary.

TO ASSURE YOUR BABY AN ADEQUATE DIET

- Breast-feed unless there are special problems
- Delay other foods until baby is 3 to 6 months old
- Do not add salt or sugar to baby's food

- Elderly people may eat relatively little food. Thus, they should pay special attention to minimizing foods high in calories and low in essential nutrients--for example, fats, oils, sugars, and alcohol. The latter is not usually regarded as a food, but is high in calories. Although elderly people do not generally need vitamin supplements, occasionally their dependence on drugs for the treatment of various diseases may require a physician's guidance on vitamin supplementation because of drug-nutrient interactions.

Megadoses of any nutrient should be avoided.

MAINTAIN REASONABLE WEIGHT

If you are too fat, your chances of developing some chronic disorders are increased. Obesity is associated with high blood pressure, increased levels of blood fats (triglycerides) and cholesterol, heart attacks, and strokes, the most common type of diabetes, and many other types of ill health. Thus, you should try to maintain a "reasonable" weight.

But how do you determine what a reasonable weight is for you?

There is no absolute answer. The following table shows reasonable ranges for most adults. If you have been obese since childhood or adolescence, you may find it difficult to reach or maintain your weight within a reasonable range. For most people, their weight should not be more than it was when they were young adults (approximately 25 years old).

It is not well understood why some people can eat much more than others and still maintain normal weight. However, one thing is definite: to lose weight, you must take in fewer calories than you burn. This means that you must either select foods containing fewer calories or you must increase your activity, or both.

Reasonable Body Weight Ranges

Height without shoes	Weight without clothes	
	Men (pounds)	Women (pounds)
4'10"		92-121
4'11"		95-124
5'0"		98-127
5'1"	105-134	101-130
5'2"	108-137	104-134
5'3"	111-141	107-138
5'4"	114-145	110-142
5'5"	117-149	114-146
5'6"	121-154	118-150
5'7"	125-159	122-154
5'8"	129-163	126-159
5'9"	133-167	130-164
5'10"	137-172	134-169
5'11"	141-177	
6'0"	145-182	
6'1"	149-187	
6'2"	153-192	
6'3"	157-197	

Note: For women 18-25 years, subtract one pound for each year under 25.

SOURCE: Adapted from the 1959 Metropolitan Desirable Weight Table.

TO IMPROVE EATING HABITS

- Eat slowly
- Take smaller portions
- Avoid "seconds"

For the majority of people who decide to lose weight, a steady loss of 1 to 2 pounds a week--until you reach your goal--is safe. Success depends on acquiring new and better habits of eating and exercise. That is why so-called "crash" and "fad" diets usually fail in the long run.

Do not try to lose weight too rapidly. Avoid crash diets that are severely restricted in the variety of foods they allow. Diets containing fewer than 800 calories may be hazardous and should be followed only under appropriate medical supervision. Some people have developed kidney stones, disturbing psychological changes, and other complications while following such diets. A few people have died suddenly and without warning. Also do not attempt to lose weight by vomiting or by using laxatives. Frequent vomiting and purging can cause chemical imbalance which can lead to irregular heart beats and even death. Frequent vomiting can also erode tooth enamel. Avoid other extreme means of losing weight.

TO LOSE WEIGHT

- Eat a variety of foods that are low in calories and high in nutrients
    - -eat less fat and fatty foods
    - -eat less sugar and sweets
    - -drink less alcohol
    - -eat more fruits, vegetables, and whole grains
- Increase physical activity

A gradual increase of everyday physical activity like brisk walking can also be very helpful in maintenance of weight loss. The chart below gives the approximate calories used per hour in different activities.

Approximate Energy Expenditure by a Healthy Adult Weighing About 150 Pounds

Activity	Calories per hour
Lying quietly	80-100
Sitting quietly	85-105
Standing quietly	100-120
Walking slowly, 2½ mph	210-230
Walking quickly, 4 mph	315-345
Light work, such as ballroom dancing; cleaning house; office work; shopping	125-310
Moderate work, such as cycling 9 mph; jogging, 6 mph; tennis; scrubbing floors; weeding garden	315-480
Hard work, such as aerobic dancing; basketball; chopping wood; cross-country skiing; running, 7 mph; shoveling snow; spading garden; swimming, "crawl"	480-625

Source: Based on material compiled by Robert E. Johnson, M.D., Ph.D., Professor Emeritus, University of Illinois.

A pound of body fat contains approximately 3500 calories. To lose 1 pound of fat, you must burn 3500 calories more than you consume. If you burn 500 calories more a day than you consume, you will lose 1 pound of fat a week. Thus, if you normally burn 1700 calories a day, you can theoretically expect to lose a pound of fat each week if you adhere to a 1200 calorie-per-day diet. When you begin a weight reduction diet, you may at first experience somewhat faster weight loss due to loss of water and protein.

Do not attempt to reduce your weight below the reasonable range. Severe weight loss may be associated with nutrient deficiencies, menstrual irregularities, infertility, hair loss, skin changes, cold intolerance, severe constipation, psychiatric disturbances, and other complications.

If you lose weight suddenly or for unknown reasons, see a physician. Unexplained weight loss may be an early clue to an unsuspected underlying disorder.

AVOID TOO MUCH FAT, SATURATED FAT, AND CHOLESTEROL

If you have a high blood cholesterol level, you have a greater chance of having a heart attack. Other factors can also increase your risk of heart attack--high blood pressure and cigarette smoking, for example--but high blood cholesterol is clearly a major risk factor.

Populations like ours with diets relatively high in total calories, saturated fats, and cholesterol tend to have high blood cholesterol levels. Individuals within these populations have a greater risk of having heart attacks than individuals within populations eating diets that contain less fat.

Eating extra saturated fat, excess calories, and high levels of cholesterol will increase blood cholesterol in many people. Of these, saturated fat has the greatest influence. There are, however, wide variations among individuals--related to heredity and to the way each person's body uses cholesterol.

Some people can consume diets high in saturated fats and cholesterol and still maintain desirable blood cholesterol levels. Other people, unfortunately, have high blood cholesterol levels even if they eat low-fat, low-cholesterol diets.

There is controversy about what recommendations are appropriate for healthy Americans. But for the U.S. population as a whole, it is sensible to reduce daily consumption of fat. This suggestion is especially appropriate for individuals who have other cardiovascular risk factors, such as family history of premature heart disease, high blood pressure, and diabetes, or who smoke.

The recommendations are not meant to prohibit you from using any specific food item or to prevent you from eating a variety of foods. Many foods which contain fat and cholesterol also provide high quality protein and many essential vitamins and minerals. These foods can be eaten in moderation so long as the overall fat and cholesterol intake is not excessive.

TO AVOID TOO MUCH FAT, SATURATED FAT, AND CHOLESTEROL

- Choose lean meat, fish, poultry, dry beans and peas as protein sources
- Use low-fat milk and milk products as calcium sources
- Moderate the use of egg yolks and organ meats
- Limit intake of butter, cream, heavily hydrogenated fats, shortenings, and foods containing palm and coconut oils
- Trim excess fat off meats
- Broil, bake, or boil rather than fry
- Read labels carefully to determine both amount and type of fat present in foods

EAT FOODS WITH ADEQUATE STARCH AND FIBER

The major sources of energy (calories) in the American diet are carbohydrates and fats. Protein is also a source of energy, but supplies fewer calories than either carbohydrate or fat, alcoholic beverages are another source of calories. If fat intake is limited, then any caloric deficit can be made up by carbohydrates. Carbohydrates contain less than half the number of calories per ounce than fats do.

Simple carbohydrates, such as sugars, provide calories but few other nutrients. Complex carbohydrates such as starch are found in foods like breads and cereal products, beans, peas, nuts, seeds, fruits, and vegetables. In addition to carbohydrates, these foods contain many other essential nutrients. The caloric content of simple and complex carbohydrates is the same.

Increasing your consumption of foods containing complex carbohydrates can also help to increase your level of dietary fiber. The American diet is relatively low in fiber.

Fiber is a generic term used to describe parts of plant foods which are generally indigestible by humans. There are several major classes of fiber, each of which has a unique chemical structure and different biological effects. For example, wheat bran (which contains several types of fiber) has laxative properties but no influence on blood cholesterol levels. Whether dietary fiber, once extracted from a food stuff, functions as it does in the intact food is a subject of current research. Excessive intake of fiber may lead to trace mineral deficiency.

Eating foods high in fiber has been found to reduce symptoms of chronic constipation, diverticular disease, and some types of "irritable bowel." It has been suggested that habitual intake of diets low in fiber may increase the risk of developing colon cancer, but there are no firm data on this point.

A diet containing whole-grain breads and cereals, fruits, and vegetables should provide an adequate intake of dietary fiber. There is no reason to add fiber to foods that do not already contain it.

TO EAT MORE COMPLEX CARBOHYDRATES DAILY

- Substitute starches for fats and sugars
- Select foods which are good sources of fiber and starch, such as whole-grain breads and cereals, fruits and vegetables, beans, peas, and nuts.

AVOID TOO MUCH SUGAR

A major health hazard from eating too much sugar is tooth decay (dental caries). The risk of caries is not simply a matter of how much sugar and sugar-containing foods you eat but how often you eat them. The more frequently you eat sugar and sugar containing foods the greater the risk for tooth decay, especially if they are eaten between meals, and if they adhere to your teeth.

Americans consume sugar in various forms in their diets. Common table sugar (sucrose) is only one form of sugar. Other sugars--such as glucose, dextrose, fructose, maltose, and lactose--occur naturally in foods and are added as ingredients in foods, e.g. corn sweeteners. Both starches and sugars appear to increase the risk of dental caries when consumed between meals, but simple sugars appear to offer a higher risk. Thus, frequent in-between meal snacks of foods such as cakes and pastries, candy, dried fruits, and soft drinks may be more harmful to teeth than the sugars eaten in regular meals.

It is obviously impossible and imprudent to avoid all sugar because most of the foods we eat contain some sugar in one form or another. It is important to minimize the consumption of excess sugars and sweet foods between meals. And if you do eat them, brush your teeth, if possible.

Clearly, there is more to maintaining healthy teeth than avoiding sugars. Careful dental hygiene and exposure to adequate amounts of fluoride through fluoridated water are especially important. Fluoridated toothpastes or mouth rinses are also helpful.

Contrary to widespread belief, too much sugar in your diet does not cause diabetes. The most common type of diabetes occurs in obese adults, and avoiding sugar without correcting the overweight problem--which requires reduction in total caloric intake (carbohydrate, alcohol, fat, and protein)--will not solve the problem. However, refined sugars provide calories but few other nutrients, and, thus, diets containing excessive amounts of sugars should be avoided by those on weight-reducing diets and by the elderly.

TO AVOID EXCESS SUGARS

- Use less of all sugars and foods containing large amounts of sugars, including white sugar, brown sugar, raw sugar, honey, and syrups
- Remember, how often you eat sugar and sugar-containing food is as important to the health of your teeth as how much sugar you eat. Therefore, restrict consumption of sweets and starches to mealtime and avoid in-between meal snacks of foods containing sugars and starches
- Read food labels for clues on sugar content. If the names sucrose, glucose, maltose, dextrose, lactose, fructose, or syrups appear first, then there is a large amount of sugar. Select foods canned without syrup, or with light, rather than heavy syrup
- If your infant sleeps with a bottle, be sure it contains only drinking water

AVOID TOO MUCH SODIUM

Table salt contains sodium and chloride--both are essential in the diet. In addition, salt is often required for the preservation of certain foods.

Sodium is present in many beverages and foods that we eat, especially in certain processed foods, condiments, sauces, pickled foods, salty snacks, and sandwich meats. Baking soda, baking powder, monosodium glutamate (MSG), and even many medications (many antacids, for instance) contain sodium.

The major hazard of excess sodium is for persons who have high blood pressure. Not everyone is equally susceptible. In the United States, approximately one in four adults has mild to severe high blood pressure. Sodium intake is but one of the factors known to affect high blood pressure. Several other nutrients may also be involved. Obesity, in particular, seems to play a major role.

In populations with low sodium intakes, high blood pressure is rare. In constrast, in populations with high sodium intakes, high blood pressure is common. If people with high blood pressure severely restrict their sodium intakes, their blood pressure will usually fall, although not always to normal levels.

At present, there is no good way to predict who will develop high blood pressure, although certain groups such as blacks have a higher incidence. Low sodium diets might help some of these people avoid high blood pressure if they could be identified before they develop the condition.

Since most Americans eat more sodium than is needed, consider reducing your sodium intake. Use less table salt, read labels carefully, and eat sparingly those foods to which large amounts of sodium have been added. Remember that up to half of sodium intake may be "hidden" either as part of naturally occurring foods or as part of a preservative or flavoring agent that has been added.

TO AVOID TOO MUCH SODIUM

- Learn to enjoy the unsalted flavors of foods
- Cook with only small amounts of added salt
- Add little or no salt to food at the table
- Limit your intake of salty foods such as potato chips, pretzels, salted nuts and popcorn, condiments (soy sauce, steak sauce, garlic salt), cheese, pickled foods, and cured meats
- Read food labels carefully to determine the amounts of sodium in processed foods and snack items
- Look for new, lower sodium products in the markets to replace those of higher sodium content

IF YOU DRINK ALCOHOLIC BEVERAGES, DO SO IN MODERATION--AND DON'T DRIVE

Alcoholic beverages are high in calories and low in nutrients. Thus, even moderate drinkers will need to drink less if they are overweight and wish to reduce.

Heavy drinkers frequently develop a variety of nutritional deficiencies as well as more serious diseases, such as cirrhosis of the liver and certain types of cancer, particularly if they also smoke cigarettes. This is in part because of loss of appetite, poor food intake, and impaired absorption.

Excessive consumption of alcoholic beverages by pregnant women may cause birth defects or other problems during pregnancy. It has not been established whether there are risks to the fetus from minimum consumption of alcohol. Until this is known, pregnant women should abstain or limit alcohol intake to an occasional standard-size drink of beer, wine or liquor (not more than one drink per day).

One or two standard-size drinks daily appear to cause no harm in normal healthy adults. If you drink, be moderate in your intake and DO NOT DRIVE!

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NATIONAL AGRICULTURAL RESEARCH AND EXTENSION USERS ADVISORY BOARD

Mr. Whitten. Reference is made on pages 2g–20 and 21 of the explanatory notes to the Board's preparation of the report assessing the executive budget request for fiscal year 1986 for agricultural research and extension services. Did the Board prepare such a report for the fiscal year 1987 budget request? If so, please submit a copy for the record.

Mr. Franke. The Users Advisory Board is in the final stage of writing the fiscal year 1987 budget report for agricultural research and extension. It will take eight to ten weeks for publication. Copies will be available in May 1986 and will be provided to you at that time.

AGRIBUSINESS PROMOTION COUNCIL

Mr. Whitten. On page 2g–25 of the explanatory notes reference is made to the Agribusiness Promotion Council's final report being submitted to the Secretary and that USDA implemented many of the recommendations during fiscal year 1985.

Mr. Franke. I will gladly provide a copy of the report. In terms of implementation, the Council's recommendation for a review of non-tariff intra-regional barriers and barriers to two-way trade with the Caribbean Basin was not implemented in fiscal year 1985, but is being assessed in fiscal year 1986 through a limited survey being conducted by a Council committee.

The recommendation that USDA explore use of P.L. 480 Title I counterpart funds through the private sector for agricultural marketing infrastructure improvement was implemented in fiscal year 1984 when USDA communicated this recommendation to AID's Latin American/Caribbean Bureau. There was no change in the status of implementation of this recommendation in fiscal year 1985.

The Council recommended that USDA support establishing an agribusiness information center to disseminate USDA agribusiness information from a single source within the Office of International Cooperation and Development (OICD). Congress approved $200,000 for fiscal year 1986 for the center, and its establishment is being implemented. Information was provided on an ad hoc basis in fiscal year 1985.

The recommendation to request lifting a travel advisory on Guatemala was rescinded by the Agribusiness Promotion Council—APC—committee on Guatemala.

USDA and individual Council members continued to inform and communicate to the Environmental Protection Agency—EPA—the detrimental consequences for the Caribbean Basin of the ban on the use of the fumigant ethylene dibromide—EDB. Council members also contributed to EPA's current decision to reconsider the EDB ban for imported, non-traditional fruits, such as mangoes.

No further APC-sponsored mini-investment missions were organized by USDA in fiscal year 1985.

After the successful September 1984 Agricultural Marketing Workshop for the Caribbean Basin was organized by USDA and AID, a third such workshop was held in September 1985 in New

Orleans. Exhibits, panelists and workshop activities successfully promoted two-way trade, investment in the Caribbean Basin, and information to the 500 U.S. and Caribbean Basin participants.

USDA updated and expanded the information in the Agricultural Marketing Handbook for Caribbean Basin workshop participants. It was also translated into Spanish by the Inter-American Institute for Cooperation in Agriculture.

More attention and assistance was provided to the Eastern Caribbean and Belize. A USDA-AID workshop in Barbados, attended by participants from throughout the Eastern Caribbean, Belize and the United States, promoted U.S. small-agribusiness investment in those countries.

[The information follows:]

THE AGRIBUSINESS PROMOTION COUNCIL

1982 - 1984

FINAL REPORT

APPOINTED BY

THE SECRETARY OF AGRICULTURE

JOHN R. BLOCK

AGRIBUSINESS PROMOTION COUNCIL
RECOMMENDATIONS FOR FUTURE DIRECTION

In the two years of the Council's existence, many things have been accomplished in support of the President's Caribbean Basin Initiative. These are outlined in detail later in this report. The recommendations below are intended to give some direction to future USDA involvement in the Caribbean Basin.

- Caribbean Basin-wide Marketing Workshops

  USDA and the APC have hosted two highly successful agricultural marketing workshops for the nations of the Caribbean Basin. By all accounts, these workshops have been beneficial to both the United States and the Caribbean Basin countries. While the usefulness and the need for the continuation of these workshops is without question, some serious thought should be given to future format, content, and logistical arrangements. OICD should explore options for turning greater conference management responsibilities over to a private organization. In so doing, OICD needs to assure that control over the programmatic content of the workshop is retained. OICD should also evaluate the recent workshop as a basis for determining whether shifts in emphasis and scope are indicated.

- Country-specific Workshops

  USDA sponsored the first such workshop in May 1984. It was successful as indicated by the Costa Rican businessmen who participated. Within available resources, these workshops should be continued. As a minimum, one should be done in the Eastern Caribbean Islands. While not done by design, this part of the region has not received as much attention to date as other areas.

- Removal of Caribbean Country Constraints

  Experience from our various business opportunity missions and workshops clearly indicates that there are serious policy and procedural constraints to progress which can only be rectified through action by the Caribbean governments. There are two channels through which USDA might promote remedial action:

  - Notification of the U.S. Ambassador

    Problems of this nature identified in dealing with Caribbean Basin countries should be systematically noted by OICD and, where appropriate, a communique prepared to our Ambassador in the country from the Secretary or Under Secretary requesting that the problem be brought to the attention of the appropriate country official.

- Cancun-style Missions

  Small teams of USG and private sector experts could be mobilized to visit interested country policy officials to identify constraints which could be removed, procedures modified, etc. USDA's willingness to facilitate this process should be conveyed to Caribbean Basin countries through our Ambassadors. Likely first candidates for such missions could be those countries that have been targeted by the APC - Guatemala, Dominican Republic, Costa Rica and Honduras. The Cancun missions, which are broader in scope than this proposal, have targeted only one country in the Caribbean Basin, Honduras. Information gathered from that effort could be helpful in our endeavors.

- Caribbean Basin Agribusiness Leaders Visits to the United States

  Most of USDA's activities have been outreach in nature, i.e. our experts have travelled to the Caribbean Basin or Miami to disseminate information to these countries. The Council recommends that some thought be given to establishing a program for bringing key agribusiness people to the United States to tour appropriate sites here, to the extent possible at their own cost. USDA/OICD would coordinate all visits with appropriate private sector firms. The idea is to go beyond the information dissemination function provided by workshops to the hands-on visual approach afforded by such visits. Such missions would be both beneficial and cost effective, given USDA's limited resources for CBI activities. Such visits could take the form of exchange programs in training or private enterprise in specific areas of interest for very short periods (i.e. 2-4 weeks). The Information Center could be used to "match" individual interests with appropriate U.S. firms.

- Broadening the Range of U.S. Private Sector Involvement

  Efforts should be made to expand the range of participation in the CBI endeavor of U.S. agribusiness firms. This should include small to medium and minority firms.

- Agribusiness Information Center

  While the establishment of the information center is detailed later in the Council's recommendations section of this report, it is felt that this function is so critical that it should be mentioned here. The Council strongly recommends that sufficient resources be found to firmly establish this vitally needed information function. The present contact list for both foreign and domestic agribusiness firms would continue to be expanded to include more firms. Especially important is the need to incorporate an outreach mechanism for identifying new agribusiness firms in developing countries. Such a mechanism would be useful in keeping track of countries' agribusiness priorities. The key to USDA's assistance is in the information dissemination area.

Intergovernmental Coordination

To more efficiently carry out the President's mandate, more effort is needed to reduce the amount of confusion in the U.S. Government's CBI efforts. Conversation with Caribbean Basin officials reveals that the uncoordinated endeavors of the different Federal departments and agencies cause confusion. It is recommended that the Secretary take the initiative to meet with other principals in the U.S. Government - Ambassador Brock, Secretary Baldridge, AID Administrator McPherson - to reinforce the importance of agriculture in the CBI effort.

STATUS OF APC RECOMMENDATIONS
(Made during Annual Meeting - Nov. 29-30, 1983)

1. Recommendation: The Agribusiness Promotion Council recommends a comprehensive review of non-tariff barriers to agricultural trade in the Caribbean Basin, with results to be submitted to the Secretary. The review should examine intra-regional barriers and barriers to two-way trade with the United States. The APC will help formulate the scope and identify appropriate economic and technical experts.

   Status: In December 1983, USDA approached AID with a proposal to help fund such a study. AID was warm to undertaking this proposal, but budgetary constraints prevented any serious consideration at that time. The Economic Research Service of the USDA is in the process of signing an agreement with Ohio State University to begin such a study for Jamaica and the Dominican Republic. It is expected that the number of countries covered will expand to include other countries in the Basin region.

2. Recommendation: That USDA conduct a marketing workshop in Costa Rica, tailored to that country's needs, with involvement of the U.S. private sector, and that similar workshops be conducted throughout the Caribbean Basin.

   Status: In May 1984, USDA/APC sponsored its first country-specific workshop in Costa Rica. By all accounts from the 250+ participants, it was a very successful workshop. Some business contacts and joint ventures resulted. In addition, AID/Costa Rica has informally requested assistance from USDA to help that country establish grades and standards for fruits and vegetables. Further plans are presently underway for a USDA-sponsored workshop for the Eastern Caribbean Islands in April 1985.

3. Recommendation: USDA explore possible use of P.L. 480 Title I counterpart funds (through the private sector) for agricultural marketing infrastructure improvement (such as improved port facilities, roads, warehouses, cold storage facilities, processing facilities, etc.)

   Status: Counterpart funds from P.L. 480 agreements are controlled by AID. The Latin America Bureau has been approached relative to this recommendation. No determination has yet been made by AID. The Private Sector Relations staff will continue pursuing an agreement with AID on this recommendation.

4. Recommendation: A current business and investment climate report on each APC target country be provided.

   Status: AID has agreed to have each field mission prepare such reports and make them available to USDA when completed.

Report on Status of APC Recommendations

5. Recommendation: Support establishing, with sufficient funding, an agribusiness information center to disseminate USDA agribusiness information from a central source within OICD.

   Status: USDA/OICD has obtained authorization from the Secretary for carrying out this function. While some information is being disseminated at present, with appropriate funding this function would expand considerably. OICD is currently seeking funding for the Information Center.

6. Recommendation: Communicate with State Department to request lifting the present travel advisory on Guatemala because this measure has a detrimental effect on U.S.-Guatemalan trade and investment activities.

   Status: Because of some serious security problems which existed in Guatemala City shortly after this recommendation was made, the recommendation was rescinded by the Guatemala Committee.

7. Recommendation: Communicate with EPA about the consequences of the ban on applying EDB because prohibition will limit Caribbean Basin countries' abilities to export fresh fruits and vegetables to the United States.

   Status: Such a communication was prepared by the Guatemala Committee and forwarded to the Environmental Protection Agency in January 1984 through the Department's Office of General Counsel.

8. Recommendation: Organize APC-sponsored mini-investment missions to Caribbean Basin nations on a continuing basis.

   Status: Since November 1983, the APC has led two missions to the Dominican Republic and Guatemala and a combined business opportunity mission and workshop to Costa Rica. By all accounts, these missions have proven to be effective in channeling U.S. investments to the Caribbean Basin countries. A mission to Honduras is planned for early 1985.

9. Recommendation: Conduct another Caribbean Agricultural Marketing Workshop in September 1984 to reflect the stated needs of Caribbean Basin countries. Subjects include post-harvest quality, plant protection and quarantine and grades and standards. Seek the active participation of private agribusiness companies (e.g. refrigeration, grading equipment, packaging and transportation) to provide informational exhibits about their products or services.

   Status: The USDA and the APC sponsored its second Caribbean Basin-wide workshop in September 1984. Over 700 attended; an estimated $105 million in business was contracted on site by the U.S. agribusiness firms exhibiting. Six Caribbean Basin countries also exhibited.

10. Recommendation: Publish an agricultural marketing handbook to serve as a practical reference for Caribbean Basin countries. To be an effective marketing tool the handbook should include:

    -- Description of the scope of the U.S. market
    -- U.S. trade policies for imports
    -- Post-harvest quality handling
    -- The requirements of the Animal and Plant Health Inspection Service
    -- Seasonal gaps in the U.S. production
    -- Explanation of U.S. Grades and Standards
    -- Information about the Fruit and Vegetable Market News Service

    Status: The Private Sector Relations staff, in cooperation with the APC Marketing Committee, put together a 140-page marketing handbook and distributed it at the 1984 workshop. Copies of this publication are in high demand from domestic and foreign organizations requiring such information.

11. Recommendation: Work with U.S. small agribusiness investors to facilitate their participation in the agricultural economies of Belize and the countries of the Eastern Caribbean. The Council will also assist individuals from the private sectors of Belize and the Eastern Caribbean to obtain practical business management training.

    Status: Through the Information Center within OICD, information has been disseminated to various U.S. agribusiness firms on investing in Belize and the Eastern Caribbean. However, no mechanism for measuring results has been established. The planned agricultural marketing workshop for the Eastern Caribbean will help determine management training needs and how best to facilitate U.S. investment to this region.

AGRIBUSINESS PROMOTION COUNCIL: SUMMARY OF ACCOMPLISHMENTS

Agriculture being the key to economic recovery of the Caribbean Basin, USDA has a primary role in U.S. agricultural assistance to these countries. Few people, however, are aware of the effective model of private sector involvement which USDA has developed for this effort, the Secretary's Agribusiness Promotion Council (APC), nor of the successful activities USDA has undertaken upon recommendation by the APC.

A. USDA AGRICULTURAL MARKETING WORKSHOP FOR THE CARIBBEAN BASIN

USDA provided no "script" to the APC. This private sector group's first idea, from the APC Marketing Committee, and a guest at their Marketing Committee meeting, Dr. Cheltenham, Minister of Agriculture of Barbados, was for USDA to put on an Agricultural Marketing Workshop for all the Caribbean Basin. This workshop was held in September 1983 in Miami, Florida. USDA experts delivered useful information on post-harvest quality, non-traditional products, U.S. grades and standards, etc., to the 430 participants who enthusiastically took in panel presentations and a field trip - including a produce distribution center, the Miami port, an APHIS flower inspection, packaging plants and retail stores. Some Caribbean Basin participants called this the first practical and useful thing to come out of the Caribbean Basin Initiative. Several U.S. businesses, both large and small, which participated reported they bought Caribbean Basin products, sold their U.S. products, or subsequently made investments as a result of contacts made.

B. BUSINESS OPPORTUNITY TRIPS

The APC Dominican Republic and Guatemala committees decided business missions would be most effective. The Dominican Republic Committee took ten agribusinessmen to the Dominican Republic in February '84 and 27 in May '84. The APC Committee on Guatemala took five investors to Guatemala in February '84, and 15 in May '84. The participants and the countries visited reported great satisfaction with these trips. Selling of U.S. products, buying of host country agricultural products, and U.S. investments and joint venture arrangements resulting are reported to total over $40 million. The APC Honduras committee will lead a similar trip to Honduras in early 1985.

These prominent APC members, who spread the word through their network of business contacts, and who by their own participation attract the interest of others, are a key to success. Another key to success is the exclusively agricultural focus of these trips, and the esteem in which USDA, which coordinates and staffs these trips, is held.

C. COUNTRY-SPECIFIC AGRICULTURAL MARKETING WORKSHOP

When private sector agricultural representatives from Costa Rica asked USDA to put on an Agricultural Marketing Workshop tailored for that country, the APC Costa Rica committee recommended that USDA do so. AID paid for transportation of USDA experts to Costa Rica; Costa Rica paid their in-country costs. Costa Ricans, the U.S. Agricultural Attache, and the AID mission all had input into the agenda developed by USDA/OICD. The three hundred participants (90% Costa Rican; 10% U.S.) were enthusiastic and positive in their response to the workshop, and the field trip. Deputy Under Secretary Alan Tracy and Costa Rica President Monge concluded the successful conference on May 11, 1984.

D. 1984 USDA AGRICULTURAL MARKETING WORKSHOP FOR THE CARIBBEAN BASIN

A second USDA agricultural marketing workshop for the Caribbean Basin was held September 23-27, 1984 in Miami. Over 700 participants attended. Topics covered were in the same general areas as the '83 workshop, but provided greater depth and specificity. New topics were added. U.S. private sector participation increased, including exhibitors from 70 U.S. companies, and many private sector experts as panelists with USDA experts. The increased participation reflects the effectiveness of the 1983 and the Costa Rica workshops in bringing together the private sector of the Caribbean Basin with that of the U.S., with USDA as the principal source of technical expertise and information, and as conference coordinator.

The APC has been active in these and many other ways in support of the CBI and USDA. However, much remains to be done in order for the CBI to succeed. The legislation has only been in effect for the first 6 months of its twelve-year term. The countries of Panama, Belize, Haiti, Barbados and other Eastern Caribbean Islands are requesting USDA and APC assistance. In the U.S., there has been no widespread effort to reach U.S. agriculturalists who might participate in the CBI.

The 30 members of the Secretary's APC have been notably successful in helping USDA with effective efforts in support of the Caribbean Basin Initiative. In creating this partnership with the U.S. private sector, USDA has developed a model which has promising potential applicability for this agency's efforts with other developing countries, as well as for many other areas of U.S. government.

E. AGRICULTURAL MARKETING HANDBOOK FOR CARIBBEAN BASIN EXPORTERS

A 140 page handbook was published by USDA in time for the 1984 workshop and disseminated to the 700-plus attendees. The reference manual includes such information as U.S. trade policies for imports, post-harvest quality handling, requirements for Animal and Plant Health Inspection Service, seasonal gaps in U.S. production, explanation of U.S. grades and standards for fruits and vegetables and a detailed description of the Caribbean Basin Economic Recovery Act.

F. AGRIBUSINESS INVESTMENT OPPORTUNITY REPORTS

Desiring to know what opportunities for investment presently exist in the Caribbean Basin, the APC sponsored visits to three targeted countries; Costa Rica, the Dominican Republic and St. Vincent. Completed in April 1983, the reports provide in-depth analysis of the current business opportunities in those countries. The reports were written by three graduate students from the Harvard Graduate School of Business Administration.

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(Appointed by Secretary Block, USDA)

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RENTAL PAYMENTS AND BUILDING OPERATIONS

Mr. WHITTEN. The amount requested for the rental payments and building operations account represents an 11 percent increase over the 1986 level composed primarily of a 12 percent increase in rental payments to GSA. What would happen if these requested increases were denied in whole or in part?

Mr. FRANKE. GSA would have to absorb the difference between the billed cost of the space and the amount available to USDA to pay for the space. There is a good possibility that GSA would attempt to evict us from certain locations or, at least, to relocate certain field offices to less desirable, less expensive space.

Mr. WHITTEN. Please provide a sub-object class display for other services for fiscal years 1986 and 1987.

[The information follows:]

RENTAL PAYMENTS AND BUILDING OPERATIONS—OBLIGATIONS IN OBJECT CLASS 2500 (OTHER SERVICES) FY 1986 AND 1987

Subobject code	Description	FY 1986 estimate	FY 1987 estimate
2510	Contractual services performed by other agencies, excluding GSA, SLUC and FTS charges.	$21,539	$22,446
2520	Personnel related expenditures	19,250	20,116
2530	Repair, alterations, or maintenance of equipment or structures	7,420,000	7,753,900
2540	Contractual services other, e.g., architectural and engineering, research, commercial ADP services.	3,340,000	3,834,823
2560	ADP processing services and supplies, e.g., data entry, KCCC, WCC, SLCC, and FCCC computer centers, tapes, and maintenance of software.	7,255	7,581
2570	Miscellaneous services, e.g., publication notices, advertising, A-76 contractural, GSA motor pool.	3,956	4,134
	Total	10,812,000	11,643,000

Mr. WHITTEN. Was the rental payment to GSA for fiscal year 1986 reduced by 4.3 percent to show the effects of the Gramm-Rudman-Hollings legislation? If not, why should GSA not share in the cost reduction imposed on other agencies?

Mr. FRANKE. Yes, appropriated amounts for the rental payment to GSA were reduced by 4.3 percent.

BUILDING OPERATIONS

Mr. WHITTEN. On page 2g-18 of the explanatory notes you state that a plan has been developed and initiated to address the $70 million backlog of major repairs for USDA buildings. Does the fiscal year 1987 budget request contain proposals for any of the major repair items? If so, please identify the item and the estimated cost.

Mr. FRANKE. The building operation repair program is divided into two categories, major renovation and repair, and the minor repair program. The first category includes those projects required to correct building functional or life safety deficiencies. The second category, the minor repair program, is used to correct the many small repairs, costing less than $10,000 which are required due to the advanced age and deterioration of the complex.

In FY 1987 it is our intent to focus on several critical areas of safety and functional deficiencies which affect our employees. In the summer of 1986, we will have a completed action plan for asbestos abatement in the South and Administration Buildings. The USDA surveys and analyses have been completed and we anticipate a major effort in this area in FY 1987. Also, the condition of many of the roofs of our buildings will require the Department to move quickly to make repairs and replacements before more damage occurs.

The Minor Repair Program will continue to be of high priority. The facilities in our complex are quite old and in poor condition. In FY 1986, over $1 million will be spent on emergency minor repairs to keep the complex operational. The majority of these funds will be used in HVAC repairs and corrections as well as upgrading and repairing electrical and elevator equipment.

Mr. Whitten. Please submit a copy of the plan for addressing the backlog of major repairs for the record.

Mr. Franke. The final plans to accomplish all the badly needed repairs for the complex are still being developed. A combination of USDA engineers and consultant specialists are reviewing the data, evaluating buildings and identifying long range as well as short range objectives. Each building will be provided with a master plan which will be integrated into a complex master plan. As these master plans are completed, we will gladly provide a copy to you.

In the interim, USDA is addressing backlog projects identified during the negotiations with GSA for the operations and maintenance delegation. Some of the critical items of functional and safety deficiencies have been corrected. However, the numerous problems with the age of the complex keeps adding to the backlog. We will continue to address the critical safety and functional inadequacies with the funding provided. I have provided a summary of the major backlog repairs, as well as a list of repairs by building in the complex.

[The information follows:]

MAJOR REPAIR BACKLOG SUMMARY

ADMINISTRATION BUILDING		7,556,724
ANNEX BUILDING		2,784,966
AGRICULTURE SOUTH		50,330,756
MAIN AUDITORS		13,692,200
WEST AUDITORS		1,821,080
	GRAND TOTAL	76,185,726

BACKLOG GROWTH:

3%	Inflation
2%	Deterioration
5%	

BACKLOG GROWS AT $3,809,286 a year OR $10,436 a day.

MAJOR REPAIR BACKLOG

D - Under Design
CN - Under Construction
CP - Completed

ADMINISTRATION BUILDING

1.	Repair exterior walls	$ 12,462
2.	Replace damaged roof sections	301,500-D
3.	Repair count skylight	261,200-D
4.	Provide roof drain strainers	1,340-CP
5.	Rehabilitate parking areas	402,000
6.	Repair and replace sidewalks	168,500-CN
7.	Improve surface drainage	100,500
8.	Replace PCB transformers	533,320
9.	Repair leaking transformers	117,920
10.	Replace elevator cars and doors	415,400
11.	Update toilet rooms	77,720
12.	Fill and close chimney flues	87,904
13.	Provide historic structure analysis	65,000-CP
14.	Provide load and fault analysis	13,400
15.	Provide emergency light system	37,200
16.	Provide smoke detector system	15,000
17.	Enclose stair openings	221,000
18.	Provide exterior exits	254,600
19.	Provide basement egress	268,000
20.	Extend stairs to lobbies	103,180
21.	Replace corridor doors	1,092,100
22.	Provide fire separations	24,790
23.	Relocate access doors	5,628
24.	Provide attic fire separations	163,480
25.	New stairs east and west	381,900
26.	Condensate drainage system	486,420
27.	Interior patch and painting	107,200
28.	Repair elevators	456,000
29.	Install fire alarm	348,400
30.	Replace 350 ton chiller	150,000-CN
31.	Renovate deteriorated HVAC system	800,000-D
32.	Asbestos Abatement	150,000-D
	TOTAL	7,556,724

D - Under Design
CN - Under Construction
CP - Completed

AGRICULTURE SOUTH BUILDING

1.	Repair concrete slab	$ 16,750
2.	Repair chipped masonry	20,100
3.	Paint exterior lintels	29,480
4.	Replace roofing and flashing on flat roof	938,000-D
5.	Replace elevator penthouse roofs	207,700
6.	Provide roof drain strainers	9,380-CN
7.	Rehabilitate parking courts over building area	670,000
8.	Rehabilitate parking courts on grade	402,000
9.	Sidewalk repairs	80,000-CN
10.	Improve receiving facilities area	134,000
11.	Refurbish electrical vaults	18,760
12.	Refurbish electrical equipment areas	6,700
13.	Replace office and corridor lighting	2,412,000-CN
14.	Replace motors	38,190-CP
15.	Rehabilitate elevator machine rooms and roof access	368,500
16.	Replace elevators cars	670,000
17.	Repair interior marble	268,000-CN
18.	Remove abandoned tanks	94,000-CP
19.	Update toilet rooms	294,800-CN
20.	Enclose attic and elevator machine roof stairs	75,040
21.	Install condensate drainage system	1,822,400
22.	Cooling coil replacements	337,680-CN
23.	Pack unit replacement	112,560
24.	Replace chiller	119,796
25.	Paint exterior iron walk	56,950
26.	Repair building appurtenances	67,000-CN
27.	Repoint exterior stonework	3,316,500
28.	Floor load survey and test	6,700-CP
29.	Parking light system	56,000
30.	Replace PCB transformers	678,000

31.	Repair transformer leaks and switches	168,000	
32.	Provide emergency light system	314,000	
33.	Provide smoke and heat detector system	268,000	
34.	Repair electric panels and boxes	13,400	
35.	Provide security alarm	150,000	
36.	Provide load and fault analysis	67,000	
37.	Replace elevators doors	521,600	
38.	Provide fire separations in attic	301,500	
39.	Replace corridor ceilings	911,200	
40.	Renovate bathrooms & provide handicap facilities	1,313,200-CN	(5 year program)
41.	Provide wall protection in basement	167,500-CN	
42.	Automatic fire doors cafeteria	56,280	
43.	Exiting study	127,300	
44.	Replace corridor doors	4,556,000	
45.	Cafeteria fllor fire protection	373,860	
46.	Replace combustible attic insulation	2,458,900	
47.	Install stairwell gates	41,272	
48.	Two-hour fire separations courtyards	1,956,400	
49.	Close slab penetrations	234,500	
50.	Relocate chase doors	39,530	
51.	Close chase s, provide ducted exhaust	1,239,500	
52.	Automatic fire doors, tunnels, and bridges	67,670-CP	
53.	Install office exhaust duct system	2,273,310	
54.	Install fire sprinkler system	8,198,388	
55.	Provide handicap water fountain	10,720-CP	
56.	Replace corridor water coolers	489,100	
57.	Recess fire extinguishers	103,180	
58.	Historic structures report	67,000-D	
59.	Patching and painting	282,740-CN	
60.	Replace exterior windows	7,200,000	
61.	Replace obsolete induction units	1,750,000-CN	(7 year program
62.	Abate Asbestos	1,500,000-D	
	TOTAL	50,330,756	

D - Under Design
CN - Under Construction
CP - Complete

ANNEX BUILING

1.	Repair skylight	$ 57,620
2.	Repair sidewalks	40,200
3.	Repair parking areas	85,100
4.	Repair and improve drainage systems	59,300
5.	Repair track dock and bumpers	59,300
6.	Replace PCB transformer	17,822
7.	Renovations fourth floor	435,500
8.	Renovations first floor	435,500
9.	Emergency lights system	24,924
10.	Smoke detector systemm	11,390
11.	Second & third floor exits	21,440
12.	Enclose stairs	2,680
13.	Replace doors	150,750
14.	Provide toilet facilities	422,100-D
15.	Provide sprinkler protection	201,000
16.	Provide refrigeration system	32,160
17.	Interior patching and painting	89,780-CN
18.	Fire alarm system	348,400-CN
19.	Replace HVAC system	250,000-D
20.	Improve handicapped access	40,000-D
	TOTAL	2,784,966

D - Under Design
CN - Under Construction
CP - Completed

MAIN AUDITORS

1.	Construct fire stairs	$ 804,000
2.	Upgrade 5th floor electical	388,600
3.	Refurbish 5th floor	511,880
4.	Repairs and paving sidewalk	100,500
5.	Install 5th floor HVAC	651,240
6.	Install special area sprinklers	96,480
7.	Plumbing system 5th floor	501,160
8.	Toilet facilities 5th floor	138,020
9.	Relocate blind stand	67,000
10.	Exterior Masonry Repairs	656,000
11.	Interior Modernization 1st - 4th floors	2,728,240
12.	Upgrade HVAC 1st - 4th floor	4,100,400
13.	Upgrade electrical 1st - 4th floor	988,920
14.	Upgrade plumbing 1st - 4th floor	495,800
15.	Replace rain leaders	400,000
16.	Renovate toilet facilities	363,140
17.	New primary electrical service	499,820
18.	Attic repairs	201,000
	TOTAl	13,692,200

NOTE: All work on this building is awaiting a major renovation by GSA. All indications at the present time are that GSA will move ahead with the renovation, therefore, these repairs will not have to be effectuated by USDA.

D - Under Design
CN - Under Construction
CP - Completed

WEST AUDITORS

1.	Replace windows	$ 800,000
2.	New primary electrical service	109,880
3.	Upgrade HVAC system	643,200
4.	Replace elevator	229,140-CP
5.	Upgrade toilet facilities	261,300-D
6.	Structural survey	6,700
7.	Roof replacement (Possible concrete structure)	450,000-CP
	TOTAL	1,821,080

BUILDING RENOVATION AND SPACE UTILIZATION

Mr. **Whitten**. On page 2g-18 of the explanatory notes you state that the $10 million renovation of the Auditor's Building will permit the consolidation of Forest Service headquarters activities and release a total of 79,000 square feet of high cost commercial space in Rossyln. How much does the Forest Service spend for the Rossyln space currently, and how much will be saved by renovating the Auditor's Building for the Forest Service?

Mr. **Franke**. The Forest Service currently spends $1,662,782 per year for space in the Rossyln Plaza Complex.

The Forest Service plans to move its entire D.C. area operations into Auditors Building upon completion of renovations. GSA is paying for the renovation. The Forest Service move means that the total square footage utilized by them will be reduced from 142,560 square feet—includes South Building—to 120,050 which represents a space savings of 22,510 sq. ft. The dollar value of these savings at current rates is approximately $450,000 for fiscal year 1987. Additional savings of $118,000 per year will be realized from eliminating the shuttle service.

MANAGEMENT REPORT

Mr. **Whitten**. How much did it cost to publish the Management Report published in January 1986?

Mr. **Franke**. Costs were approximately $2,000, of which $1,500 was for development, layout, and preparation, and $500 was for printing.

Mr. **Whitten**. How many copies were published?

Mr. **Franke**. One thousand copies were printed.

Mr. **Whitten**. For whom was the report prepared?

Mr. **Franke**. The Report is a narrative inventory of management improvements and accomplishments. It was intended for a broad internal as well as external audience. Our internal audience includes participants in the Reform '88 effort, agency administrators, agency deputies for management, and USDA policy officials. The Report has also been shared with others, including private sector cooperators in management improvement, the President's Council on Management Improvement—PCMI—members, and PCMI project participants.

Mr. **Whitten**. For what reason was the report prepared?

Mr. **Franke**. There are several reasons.

Since we began the Reform '88 improvement effort over three years ago, many employees participated in various projects and phases of this important initiative. The Management Report is a compilation of their individual results and accomplishments into a single, readable narrative that allows them to see how their work is leading to improvements.

It provides information on USDA's initiatives with both the participants and their supervisors. We hope this acts as an incentive for them to do more. It also gives visibility to those who deal with serious management issues.

The Report is a means of information exchange about Agriculture's model program with managers outside USDA. The Report is a companion to the President's Management Report issued by the

Office of Management and Budget and supports the President's Management Improvement Program.

WORKING CAPITAL FUND

Mr. WHITTEN. Was the fiscal year 1986 appropriation for the Working Capital Fund subject to the sequestration provisions of Gramm-Rudman? If not, would you please explain for the record why this account is exempt from the sequestration order?

Mr. FRANKE. The Office of Management and Budget did not take action to sequester the 1986 appropriaiton for the Working Capital Fund and did not offer an explanation for its action.

OTHER SERVICES

Mr. WHITTEN. Please provide for the record a sub-object display for other services in the Working Capital Fund.

[The information follows:]

DEPARTMENTAL WORKING CAPITAL FUND, SUB-OBJECT CLASS DISTRIBUTION OF "OTHER SERVICES".

[In thousands of dollars]

Sub-object description	FY 1985	FY 1986	FY 1987
Contract services not otherwise classified	1,019	661	495
Contractual service—Federal	15	235	245
Federal Protection Service	26	27	31
Civil defense	2	0	0
Agreement—Other	163	19	19
Training	725	624	683
Health services	49	53	56
Equipment maintenance	2,709	3,420	3,697
Space maintenance	754	812	1,094
Telephone equipment maintenance	678	679	699
Office equipment maintenance	2,060	2,970	3,020
Contractual services—Other	4,627	5,086	4,945
ADP services	312	252	307
Software maintenance	411	562	639
Graphic and exhibit services	45	4	3
Administrative management support	3,692	3,336	3,497
A-76 contract services	375	415	420
Consultant fees	8	0	0
Miscellaneous travel reimbursement	11	2	2
Temporary storage household goods	3	10	21
Total other service	17,685	19,167	19,873

NATIONAL FINANCE CENTER

Mr. WHITTEN. On page 2-20 of the explanatory notes reference is made to the expansion of initiatives to provide financial accounting support to other Federal departments and agencies, increasing the workload of the National Finance Center. Please provide for the record a table showing the other Federal agencies serviced by the Department, the type of service provided, the cost of the service provided, and the amount reimbursed by these entities.

[The information follows:]

Federal agency [1]	Type service	Estimated cost of service				Estimated amount reimbursed	
		FY 1986		FY 1987		FY 1986	FY 1987
		Variable	Fixed [2]	Variable	Fixed [2]		
ED	Administrative payments, billings and collections.	$310,880	$77,720	$379,315	$94,829	$388,600	$474,144
MSPB	Accounting, payroll/personnel, supply/inventory, administrative payments.	71,347	17,837	74,201	18,550	89,184	92,751
DoC	Payroll/personnel	1,235,040	308,760	2,416,400	604,100	1,543,800	3,020,500
USIA	Personal property	10,240	2,560	31,616	7,904	12,800	39,520
FMSH	Payroll/personnel	9,211	2,303	4,280	1,070	11,514	5,350
	Total	1,636,718	409,180	2,905,812	726,453	2,045,898	3,632,265

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[1] ED = Department of Education; MSPB = Merit Systems Protection Board; DoC = Department of Commerce; USIA = U.S. Information Agency; FMSH = Federal Mine Safety & Health Review Commission.

[2] Since fixed costs are shared by additional users, the USDA share of fixed costs are reduced.

Mr. Whitten. How much of the workload increase of the National Finance Center is due to other Federal entities and how much is due to other USDA agency activities?

Mr. Franke. Mr. Chairman, workload increases are such that the total amount of workload attributable to other Federal entities is approximately 10% of the total transactions and 7% of the NFC workforce.

Mr. Whitten. How much of the workload increase is due to the Food Security Act of 1985?

Mr. Franke. Mr. Chairman, The Food Security Act of 1985, as you are well aware, is very complex and far reaching legislation. It is too soon at this point to assess the impact on the National Finance Center. However, we will continue to monitor workload changes and attempt to measure the impact of the Act on the National Finance Center.

COMPUTER CENTERS

Mr. Whitten. Please provide for the record a list of the major users of each computer center, the distribution of the workload by user, and the allocation of total cost per user for each center.

[The information follows:]

BREAKDOWN OF WORKLOAD AND DOLLAR COST BY MAJOR USER, FY 1985

User	Workload (percent)	Cost	
		Dollars	Percent
Fort Collins Computer Center:			
Agricultural Stabilization and Conservation Service	4.9	937,913	6.8
Animal and Plant Health Inspection Service	11.3	2,218,336	16.2
Forest Service	81.7	9,985,835	72.8
Other	2.1	576,533	4.2
Total	100.0	13,718,617	100.0
Kansas City Computer Center:			
Agricultural Stabilization and Conservation Service	35.2	5,104,704	35.2
Federal Crop Insurance Corporation	17.3	2,508,846	17.3
Farmers Home Administration	44.0	6,380,880	44.0

BREAKDOWN OF WORKLOAD AND DOLLAR COST BY MAJOR USER, FY 1985—Continued

User	Workload (percent)	Cost	
		Dollars	Percent
Other	3.5	507,570	3.5
Total	100.0	14,502,000	100.0
Washington Computer Center:			
Agricultural Research Service	10.2	1,071,612	10.2
Agricultural Stabilization and Conservation Service	14.3	1,502,358	14.3
Food and Nutrition Service	10.3	1,134,648	10.8
Soil Conservation Service	9.9	1,040,094	9.9
Economic Research Service	8.4	882,504	8.4
Other [1]	46.4	4,874,784	46.4
Total	100.0	10,506,000	100.0

[1] Other users number 36, plus the collection of non-USDA users. Percentages of workload and cost for these users range from 0.0 to 4.3 percent. These were not considered to be "major" users.

Mr. WHITTEN. On page 2–20 of the explanatory notes reference is made to the increased workload expected at the Fort Collins and Kansas City Computer Centers. Explain in some detail why you expect workload increases at these centers and what agencies are responsible for the expected workload.

Mr. FRANKE. With regard to the Fort Collins Computer Center workload growth projections can be traced back to FY 1984 when the Animal and Plant Health Inspection Service estimated its computer usage to increase substantially each year through FY 1989. This increase reflects the basic objectives of APHIS' major program application at Fort Collins, the Brucellosis Information System. In order to help achieve the basic objective of eradication of Brucellosis by 1990, the information system was established, requiring development of a distributed processing system with a centralized data base functioning at Fort Collins. As implementation progresses, workload demands have increased.

At Kansas City, meanwhile, there is a continuing trend toward resystematization of applications. This is resulting in online, as opposed to batch applications. Online applications require more computer resources because the functions of the applications are made available to more users. Online systems result in more demand during the day shift of computer operations. This demand greatly increases computer capacity requirements to accommodate a highly compressed workload.

Farmers Home Administration, the largest user of the Kansas City facility, is extending its online capability to field offices throughout the U.S. with interactive inquiry and updating of its accounting base. Over the next two years FmHA will expand from its current 200 to about 700 simultaneous terminals. The Agricultural Stabilization and Conservation Service and Federal Crop Insurance Corporation are also converting some batch systems to online data base systems. Kansas City's estimated shares of workload increases are FmHA, 40%; ASCS, 20%; FCIC, 20%; and Other Federal Agencies, 20%.

Mr. Whitten. Please provide for the record the staff-year ceilings and actual employment as well as the budget for each computer center for fiscal years 1985-1987.

[The information follows:]

COMPUTER CENTER EMPLOYMENT AND BUDGET DATA

	Staff year ceiling	Actual employment	Total budget
Fort Collins Computer Center:			
FY 1985 (actual)	90	82	$13,718,617
FY 1986 (est.)	82		13,146,282
FY 1987 (est.)	77		15,958,000
Kansas City Computer Center:			
FY 1985 (actual)	77	77	14,501,959
FY 1986 (est.)	74		15,898,000
FY 1987 (est.)	74		17,120,000
Washington Computer Center:			
FY 1985 (actual)	78	70	10,506,251
FY 1986 (est.)	79		12,902,000
FY 1987 (est.)	75		12,059,000

CAPITAL EQUIPMENT ACQUISITION NATIONAL FINANCE CENTER

Mr. Whitten. You are requesting an increase of $12.2 million for capital equipment acquisition for the Office of Finance and Management at the National Finance Center. Please describe in some detail the equipment you propose to purchase and how it will be used to improve the operating efficiency of the National Finance Center.

Mr. Franke. I would be pleased to furnish that information.

[The information follows:]

ADP AND TELECOMMUNICATIONS SYSTEM IMPROVEMENTS: $1.3 MILLION

This acquisition is part of the National Finance Center's continued efforts to replace obsolete conventional tape drives with cartridge tape drives for more reliable and faster processing. In addition, augmenting the NFC's computer systems with increased memory and a solid state disk device will vastly improve the time required to transfer data. This improvement in data transfer translates into faster information turnaround for end users accessing the NFC through a remote workstation.

IBM PLUG-COMPATIBLE CPU: $10.9 MILLION

In FY 87 replacement CPU equipment is necessary due to projected workload increases at our National Finance Center (NFC). These increases will be in the following areas:

Accounting and personnel applications provided by NFC to the Merit Systems Protection Board, Department of Education, Department of Commerce and other non-USDA agencies which could increase annual processing by 5.7 million transactions.

Phased implementation and expansion of cooperative processing activities in the areas of: personnel documents, travel inquiry, purchase orders, personal property, billings and collections, and other administrative systems. Increased USDA agency access to NFC systems will strain current mainframe computer capacity, particularly in providing adequate response time during the prime operations shift. In addition, moving from a primarily data processing environment to an information systems environment will impose added burdens on existing mainframes during the prime shift. Other online conversions of NFC's data entry and edit correction systems will also impact response time.

New systems under development, including: online agency access to Central Accounting System (CAS) budgetary data, a USDA-wide financial information system, automated reconciliation of the payroll accounting system, a position management system, an incentive awards subsystem, federal telecommunication system programs, and Treasury Financial Communications Systems.

MAIL SERVICES PRODUCTIVITY

Mr. WHITTEN. On page 2g-13 of the explanatory notes you state that mail service productivity is up 9 percent per staff year. Please explain for the record how this was accomplished.

Mr. FRANKE. Mail Services has experienced a volume increase of one million pieces of mail. This volume increase is being successfully processed with one less FTE through the use of additional mail preparation equipment.

Mr. WHITTEN. How many staff years are assigned to the central mail service unit?

Mr. FRANKE. Mr. Chairman, there are currently 58 full-time equivalents in this unit. Under the proposed central mail unit to begin operation on October 1 of this year, 85 staff years are proposed. This number includes consolidation of existing agency mail units.

Mr. WHITTEN. Does the central mail service unit provide service to all headquarters agencies' offices?

Mr. FRANKE. Not all are served by the current unit, but the new unit will serve all agencies headquarters offices.

Mr. WHITTEN. Please provide for the record a copy of the 1985 study to improve the central mail system. Have the recommendations of that study been implemented?

Mr. FRANKE. I will gladly provide you with a copy Mr. Chairman. The study recommended that there be a single central mail unit to serve all of USDA except for the Foreign Agriculture Service. A department work group is currently working toward having the central mail unit operational by October 1, 1986.

[The report follows:]

E. H. WHITE & CO.
Management Consultants

UNITED STATES DEPARTMENT OF AGRICULTURE
THE MAIL SERVICE SYSTEM

FINAL REPORT

May 10, 1985

SUBMITTED BY:

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ACKNOWLEDGEMENTS

This project has required intensive work over a short period of time. Many people at USDA have assisted us through the various phases.

We are particularly grateful for the encouragement of John Franke, the Assistant Secretary for Administration and his staff, Ernest Matthias and Charles Grizzle. Tom Ward of the Office of Finance & Management has served as a thoughtful and thorough COTR. Mr. Ward, as well as Frank Corrigan and Gloria Young of his staff, have reviewed all stages of the work and made incisive comments and suggestions.

We owe special thanks to the staff of all the mail units in USDA for their patience and cooperation during the data collection phase of our work. Senior managers in the Office of Operations and the various agencies throughout the Department helped in many different ways--supporting data collection, reviewing documents, and discussing many issues with us.

From the beginning a group of agency mail managers and Office of Operations staff served as a sounding board for the project. This group gave us feedback throughout the project, helping us to refine the work to meet USDA needs. Members of this advisory group included: Robert P. Gilliland and Don Adams of the Office of Operations, David Bell (APHIS), William Montgomery (ARS), Orvene Nelson (ASCS), Aline Buck (FmHA), Florine Banks (FS), Bob Byrd (FSIS), Walter Twiggs (REA), and Shirley Rittenhouse (SCS).

While the staff at E. H. White & Company appreciate the contributions of USDA staff to the redesign of the mail service system, we take full responsibility for the conclusions and recommendations of the study. We have been pleased to work with the Department of Agriculture on this significant project.

UNITED STATES DEPARTMENT OF AGRICULTURE
THE MAIL SERVICE SYSTEM

FINAL REPORT

INTRODUCTION

This final report on the mail service system for the United States Department of Agriculture draws on the work of the three major interim reports presented by E. H. White & Company:

1. The Mail Service System: Description and Needs Assessment;
2. The Mail Service System: System Design;
3. The Mail Service System: Most Efficient Organization.

Its purpose is to highlight the recommendations made across all phases of the project and to give a brief recapitulation of the general systems approach taken from the beginning of the work.

Twelve summary recommendations follow. Recommendations 1-4 should be implemented in any mail system selected by the Department; recommendations 5-12 relate to the specific system design developed under this contract.

SUMMARY RECOMMENDATIONS

1. Mail should be recognized as part of information resources management.

2. Mail management responsibilities of both the mail service unit and the action offices should be recognized and appropriate continuing education in mail management developed for staff in both areas.

3. The mail service unit should develop a close client relationship with agencies and their action offices, assessing changing needs regularly and making operational adjustments to meet those needs.

4. A management information system should be established to provide adequate data for managing the mail service system.

5. The new mail service system will have six components: a Mail Circulation Unit (MCU), an Accountable Mail Unit (AMU), a Bulk Mail/Mail Preparation Unit (BMMPU), a Courier Services Unit (CSU), a Mail Information Unit (MIU), and an Interagency Management Advisory Council (IMAC).

6. The six components will be part of a mail services office that will, after an adequate transition, be a fully consolidated and centralized service.

7. The reform of the mail service system will be designated a special productivity project.

8. During its transition period as a special productivity project, the director of the mail services office will report to the Office of the Assistant Secretary for Administration. After the transition it will become part of the information resources management area or some other appropriate operations unit.

9. The director of the mail service system will be in the range GM-15 through SES, with strong leadership and management experience.

10. The resources and expertise of other units in the Department will be made available to assist the new mail system in its transition to a fully centralized operation.

11. The transition to a centralized system will be made in three phases over a maximum of 32 months, with goals established in the initial phase to accomplish this is in a shorter period, if possible.

12. All new units will be established in Phase I and activities of the present central unit shifted to the new operational mode in 12-20 months; Phases II and III will consolidate the agency mail rooms on a planned schedule developed in Phase I. Each of these two phases will occur in a 4-6 month period.

CONTEXT AND FRAMEWORK FOR THE SYSTEM

The United States Department of Agriculture (USDA) is a cabinet level department in the executive branch of the federal government. More than 40 agencies, differing widely in size and mission, depend upon the gathering, production, and dissemination of information and knowledge to assist them in carrying out their responsibilities. This makes it particularly important thatthe management of all information resources, including mail, be an effective and efficient one.

One essential step in this process is the recognition of mail as part of the broader area of information resources management. Electronic mail is a key linking element. USDA agencies use at least ten different systems for electronic mail in current operations. In our survey of agency personnel, 87% of the respondents stated that they used electronic mail and 98% of these respondents reported they planned to expand its use over the next three years. If mail is to be managed effectively in USDA, planning for both electronic and non-electronic transmission of mail should be integrated. This is supported by the recently released report of the General Services Administration, MAIL MANAGEMENT IN THE FEDERAL GOVERNMENT.

We recommend that all future planning and operation of the mail service system be integrated in some way with the planning and operation of the broader area of information resources management. This may occur either through a joint committee or through the merging of responsiblities for both areas after the implementation of the new system design.

Recognition of dual responsibility for mail management is a second key factor in managing mail. Mail is the responsibility of both the agencies and their action offices, which receive and initiate it, and the mail service system. This is true whatever the nature of mail service system may be.

Important responsibilities of the agencies and their action offices include:

- Preparation of outgoing mail: contents, selection of appropriate class and container, correct addressing, use of complete return address, etc...;
- Preparation and correct addressing of chain mail;

- Dispatch of outgoing and chain mail to route personnel;
- Receipt of mail from route personnel and return of misaddressed mail to them;
- Planning of large mailings, including publications, so that lowest cost is selected for distribution;
- Provide information as needed to mail service unit on mail and respond to client surveys;
- Monitor agency costs, with technical assistance from mail service unit;
- Keep staff up to date on mail options and management, with technical assistance from mail service unit;
- Notify mail service unit promptly about office changes;
- Develop agency mail management initiatives as needed.

Among the important responsibilities of the mail service unit are:

- Develop a mail service system capable of responding to changing needs;
- Receive, sort, and deliver incoming mail, with standards of service meeting client needs;
- Prepare and store outgoing mail for pick up by USPS;
- Provide bulk mail and mail preparation services as agreed upon with client agencies;
- Provide courier services as agreed upon with client agencies;
- Provide technical assistance to client agencies in mail management, including continuing education for agency staff;
- Maintain an up-to-date locator file for agency offices;
- Develop special mail management initiatives as needed.

Dual responsibility for mail management requires that a close working relationship be established between the mail service unit and the client agencies. Neither the required client-service unit relationship nor the continuing education of both agency and service unit personnel in mail management is part of the present system in USDA. Without them mail cannot be managed effectively. Our recommendations here relating to these areas are general; they are discussed from an operational perspective under system design and implementation.

Another factor shaping the framework of any mail service system is the magnitude of the operation. The current central mail unit estimates a yearly volume of approximately 11 million pieces of mail in the downtown Washington, D.C. complex. Except for incoming mail, data on mail volumes is almost non-existent. One of the most serious problems the Department faces in managing the mail is this lack of systematic and consistent data. Built into the proposed new system is a mechanism to take care of this problem. We include a recommendation on mail information here because it is needed whatever system USDA may finally select.

We present here four summary recommendations needing implementation in any mail service system in the Department.

Summary Recommendations

1. Mail should be recognized as part of information resources management.
2. Mail management responsibilities of both the mail service unit and the action offices should be recognized and appropriate continuing education in mail management developed for staff in both areas.
3. The mail service unit should develop a close client relationship with agencies and their action offices, assessing changing needs regularly and making operational adjustments to meet those needs.
4. A management information system should be established to provide adequate data for managing the mail service system.

THE SYSTEM DESIGN

Phase I described the present operating system and its component parts and set the stage for system development. Phase II produced a system design, providing the following standards of service and management:

Standards of Service

1. Delivery of all incoming mail, including pouch mail, within 2-6 working hours of its arrival in the processing unit, with most mail delivered in 2-4 working hours;

2. Delivery of all chain mail on the delivery immediately following pick up, except where it can be forward-sorted for immediate delivery;

3. Delivery of all outgoing mail to USPS on the day it is picked up in the action office;

4. Performance of all bulk mail services as agreed with client agencies;

5. Performance of courier services as agreed with client agencies.

Standards of Management

1. Development of standards for all mail service activities and evaluation of performance on a regular basis;

2. Continuing assessment of client needs, including plotting of "peak and valley" requirements, and adjusting operations to repond to them;

3. Maintenance of up-to-date knowledge of postal regulations and opportunities for cost savings, translating these into handbooks and other documents for the continuing education of USDA personnel in mail management techniques.

A consolidated system can achieve these standards more effectively than the present mixed approach system. The recommended system has the following six components:

1. Mail Circulation Unit (MCU)
2. Accountable Mail Unit (AMU)
3. Bulk Mail/Mail Preparation Unit (BMMPU)
4. Courier Services Unit (CSU)
5. Mail Information Unit (MIU)
6. Interagency Management Advisory Council (IMAC)

These organizational units will perform a series of functions necessary for the full operation of the system. All of the functions outlined are needed, regardless of the system configuration elected by USDA. Each is described briefly below.

Mail Circulation Unit

The Mail Circulation Unit has the following functions:

- Receive all incoming mail from USPS
- Sort incoming and chain mail
- Make door-to-door pick up and delivery trips
- Process outgoing mail, as necessary
- Secure outgoing mail until picked up by USPS
- Make Executive Correspondence pick ups and deliveries

Accountable Mail Unit

Operationally, the Accountable Mail Unit will be part of the Mail Circulation Unit. Its responsibilities are:

- Manage incoming and outgoing accountable mail (Express mail, certified, registered, etc.)

Bulk Mail/Mail Preparation Unit

The functions of the Bulk Mail/Mail Preparation Unit are:

- Prepare bulk mail for pick up by USPS and other mail services
- Prepare large internal distributions;
- Assist Mail Circulation Unit with preparation of outgoing mail as necessary;

Courier Services Unit

The Courier Services Unit has the following functions:

- Provide all courier services currently carried out by courier services
- Provide courier services now being handled by the satellite and independent mail rooms, with the exception of FAS, which retains its courier services and Attache Desk under the proposed system
- Support the Mail Circulation Unit with vehicular movement of mail between buildings
- Support the Bulk Mail/Mail Preparation Unit with vehicular movement of bulk mail between buildings
- Pick up mail from all post boxes
- Provide delivery to mail room at ERS offices at 13th and New York Avenue as needed

Mail Information Unit

The Mail Information Unit has the following functions:

- Collect, analyze, and store all data and information needed to manage the mail service system, including flow patterns and volumes of different classes of mail and trends in the movement of mail
- Monitor, evaluate, and recommend changes to improve the operating efficiency of the system, including route design and frequency of delivery/pick up

- Monitor user satisfaction with system services
- Manage improperly addressed mail, including conducting automated searches by name and redirecting mail as needed
- Track the movement of agency offices within buildings and maintain an up-to-date address file for USDA
- Provide technical assistance to agencies in reviewing their mail management activities
- Provide regular reports on the status and activities of the mail system
- Serve as liaison with groups planning electronic mail systems

Interagency Management Advisory Council

The functions of the Interagency Management Advisory Council are:

- Serve as the permanent working advisory board to the mail services unit
- Serve as a review and coordinating council during the phase-in of the new system, recommending the transition from one phase to the next one

These units will be organized in a mail services office discussed in the section on implementation of the system. Our summary recommendations follow.

Summary Recommendations

5. The mail service system will have six components: a Mail Circulation Unit, an Accountable Mail Unit, a Bulk Mail/Mail Preparation Unit, a Courier Services Unit, a Mail Information Unit, and an Interagency Management Advisory Council.
6. The six components will be part of a mail services office that will, after an adequate transition, be a fully consolidated and centralized service.

IMPLEMENTATION OF THE SYSTEM

The organizational context within which major change is possible is critical. Changes requiring cooperation and collaboration donot occur by fiat. They must be carefully planned and managed to create a culture supporting the effective implementation of new structures and procedures. The current impetus in the federal government for improved productivity, as seen in the President's Reform 88, the work of the Grace Commission, and USDA's own initiatives in the Five-Point Management Plan, the "Streamlining" initiative, and quality of work life activities, support the idea that fundamental reform in a complex area such as mail services could be approached as a special productivity project. The history of the present mail system at USDA, with its multiple mail rooms, differing levels of service for the agencies, and the problems that have persisted over the years, suggests that if a new system is to be implemented, it will require particular attention, nurturing, and support.

For these reasons, we recommend that the reform of the mail services system at USDA be designated a special productivity project by the Assistant Secretary for Administration and be provided the resources necessary to support the process of implementation.

This designation of mail as a special productivity project has some implications for the organizational context within which it will operate. These include its position in the Office of the Assistant Secretary for Administration, the kind of leadership needed to carry out the project, and the other departmental resources needed to assist the project.

The recommendation to make the reform of the mail services system a special productivity project requires that for the duration of its status as a special project, the Mail Services Office should report directly to the Office of the Assistant Secretary for Administration. At the end of the implementation period, it should be assigned a permanent home, either within the information resources management complex, as recommended by the General Services Administration, or within some other appropriate operations unit.

The next element in our recommendation concerns the leadership needed to oversee the reform of the system. The Director of Mail Services should be in the range GM-15 through Senior Executive Service (SES), with hands-on experience of managing change in a complex organization and capable of working with the Deputy Administrators for Management in the agencies.

This executive will also need to energize people and mobilize the resources needed to carry out the transition. The person may come from within or outside of USDA, so long as the required leadership and management skills have been demonstrated in previous positions. The level of leadership needed for the long-term management of the system should be reviewed in the final phase of implementation. It is important to note that the mail operation needs to be viewed much more seriously as a major administrative unit in a complex organization and given the leadership appropriate to it.

The final recommendation in this section concerns the resources needed to carry out the the reform of the mail services unit. These include drawing on the expertise of different parts of the USDA operation, including the Office of Personnel, the Working Capital Fund, and the Office of Information Resources Management, as well as other appropriate groups. The Assistant Secretary for Administration should see that the necessary resources are made available to assure the success of the project.

Summary Recommendations

7. The reform of the mail service system will be designated a special productivity project.

8. During its transition as a special productivity project, the Director of the Mail Services Office will report to the Office of the Assistant Secretary for Administration. After the transition it will become part of the information resources management area or some other appropriate operations unit.

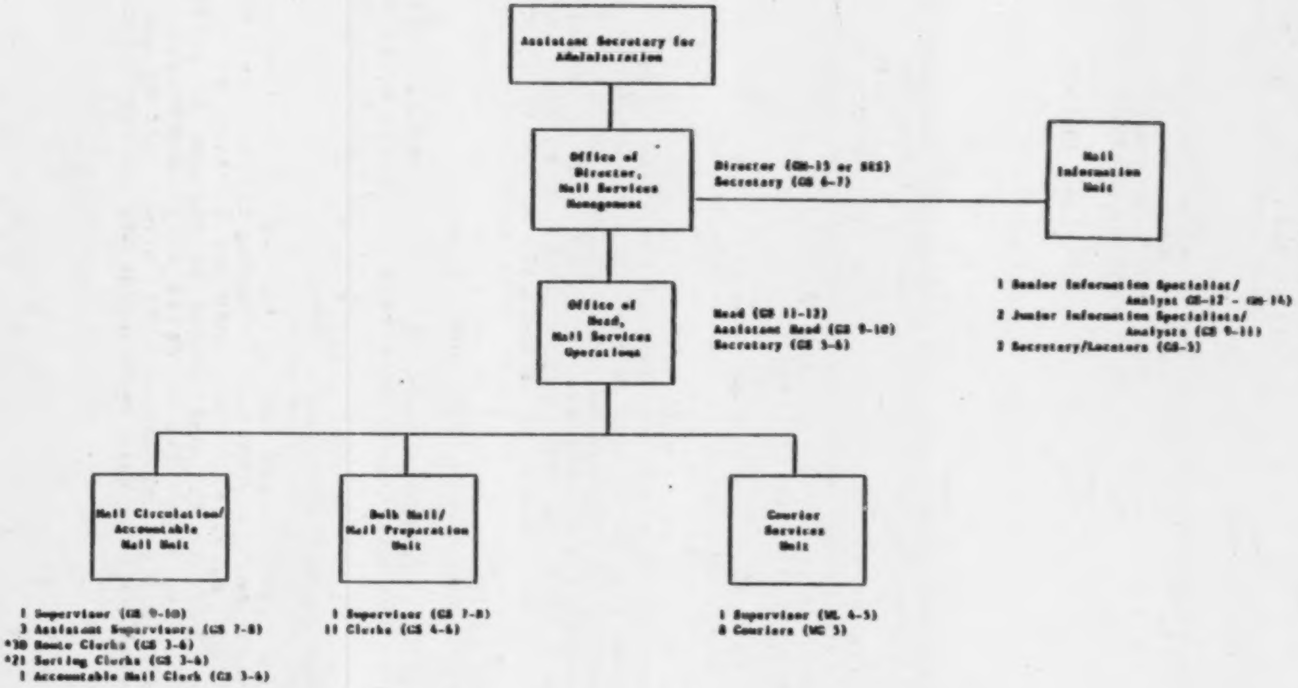
9. The Director of the Mail Services Office will be in the range GM-15 through SES, with strong leadership and management experience.

10. The resources and expertise of other units of USDA will be made available to assist the new mail system in its transition to a fully centralized operation.

In the system design report we recommended a fully centralized system with characteristics and operations different from those of the current mail services. Figure 1 on the next page is an organizational chart for the new system. It represents the organization as it will be when fully implemented.

FIGURE 1

ORGANIZATIONAL CHART WITH STAFFING LEVELS
CONSOLIDATED MAIL SERVICES SYSTEM


Assistant Secretary for Administration
Office of Director, Mail Services Management
Director (GM-15 or SES)
Secretary (GS 6-7)
Mail Information Unit
1 Senior Information Specialist/ Analyst GS-12 - GM-14)
2 Junior Information Specialists/ Analysts (GS 9-11)
2 Secretary/Locators (GS-5)
Office of Head, Mail Services Operations
Head (GS 11-12)
Assistant Head (GS 9-10)
Secretary (GS 5-6)
Mail Circulation/ Accountable Mail Unit
1 Supervisor (GS 9-10)
3 Assistant Supervisors (GS 7-8)
*30 Route Clerks (GS 3-6)
*21 Sorting Clerks (GS 3-6)
1 Accountable Mail Clerk (GS 3-6)
Bulk Mail/ Mail Preparation Unit
1 Supervisor (GS 7-8)
11 Clerks (GS 4-6)
Courier Services Unit
1 Supervisor (WL 4-5)
8 Couriers (WG 5)

* (Indicates primary assignment, not total responsibility)

In the new system two key managers report to the Director: the Head of the Mail Information Unit and the Head of Mail Services Operations. The other units report to the Head of Mail Services Operations.

The Mail Information Unit, with five staff, will be responsible for the information needs of the system. The staffing and development of this unit are vital to the success of the new system. The unit will require a strong mid-to-senior level manager/information specialist, two junior-to-mid-level information specialists and two secretarial support personnel who will also be able to search the file to take care of misaddressed mail.

The Head of Mail Operations will be responsible for day-to-day system management. The Assistant Head will be responsible primarily for human resource development: employee development plans; planning, scheduling, and implementing of training sessions in mail management for staff in the mail service unit and the agencies; and oversight of quality of work life initiatives in the mail system. This official will also work with staff in the Mail Information Unit and agency mail managers in developing such activities.

In the operating system, the Mail Circulation Unit and the Accountable Mail Unit will form a single entity. This combined unit has 56 staff assigned to it: 1 supervisor, 3 assistant supervisors, 30 route delivery clerks, 21 sorting clerks, and 1 accountable mail clerk. At least 2 clerks whose primary function is sorting will be trained to back up the accountable mail clerk. Some sorting clerks will be assigned split shifts to take care of early morning and late afternoon workloads. Staffing levels include a Sunday shift. Staff in all units will be trained to perform as many functions of the unit as possible. For example, sorting clerks, where possible, will be trained to back up route delivery clerks, with each person so assigned backing up specific routes to promote more efficient service.

The Bulk Mail/Mail Preparation Unit will have a staff of 12 and carry out essentially the same functions as at the present time. The Courier Services Unit, with 9 employees, retains the functions of the present courier unit and picks up additional work from current agency mail rooms.

The last component in the system is the Interagency Management Advisory Council, linking the mail services unit to the client agencies. The IMAC will serve as a continuing advisory body to the mail services system, ensuring that the agencies have an active voice in mail management. After the system is fully implemented, this group will be made up of the designated mail manager representatives of each of the deputies for management at the Assistant Secretary level. During the period of implementation IMAC should include the mail managers for all agencies with independent mail rooms and from at least five agencies without mail rooms. It is critical that those with a stake in the reform of the mail system be involved in bringing the new system into being.

Each USDA agency should have a mail coordinator responsible for the education of lead support and professional staff in effective mail management. These coordinators will work closely with the mail services unit and will be the contacts for the Mail Information Unit in their data gathering in the agencies. The Mail Information Unit and Assistant Head of Mail Operations will work with the mail coordinators to provide the handbooks and other materials needed to assist agency staff in carrying out mail management activities. The mail service unit will also provide annual training sessions for agency mail coordinators.

IMAC, as the principal link between the central mail operations and the agencies, will monitor and assist the implementation of the new system, provide feedback to the mail service operations, review all reports of the Mail Information Unit and request additional ones needed for the effective running of the system. During implementation the IMAC will make recommendations about proceeding from one phase to the next in the consolidation process.

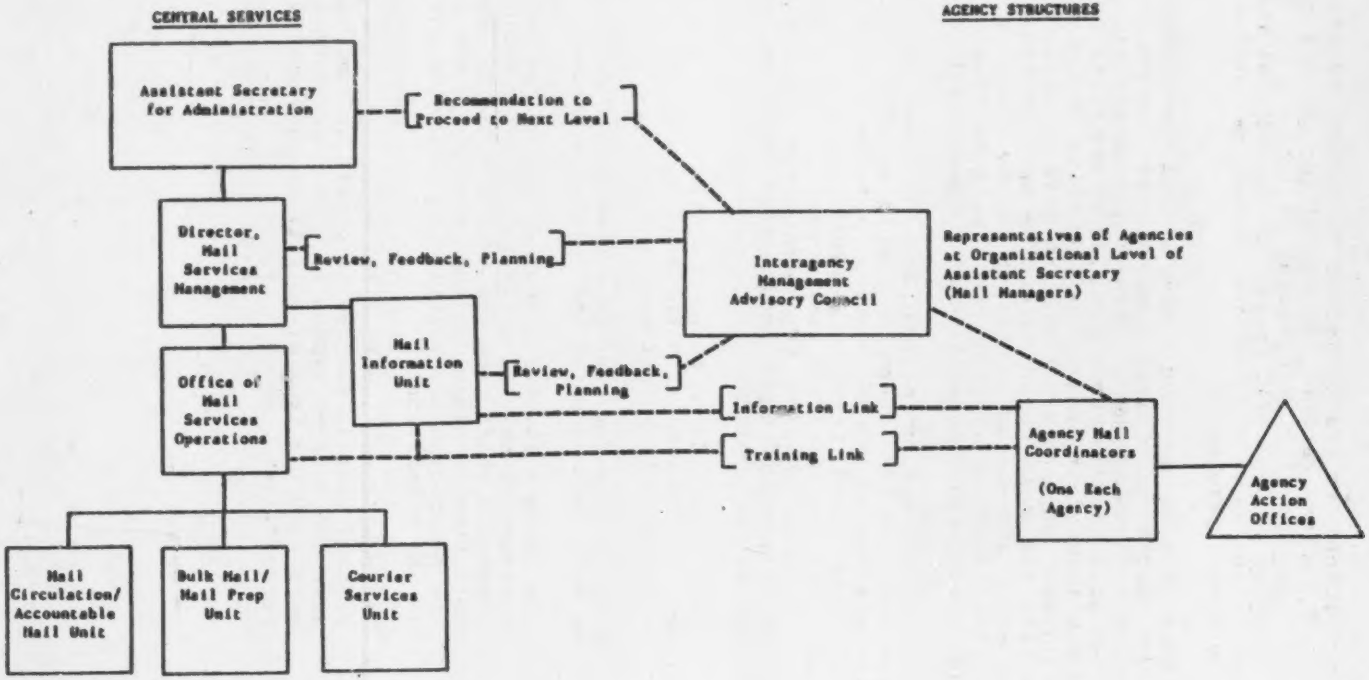
Figure 2 on the next page integrates the agency mail management structures with the mail operations structures and shows the linkages between them..

The shift from the present system to the new centralized one should be done in stages for the following reasons:

- The changes involve a complex system now being operated by several different units in USDA. An immediate shift from one to the other is impossible, both from an organizational standpoint and from the perspective of maintaining effective service in the transition.
- The confidence level of the agencies in the present central unit is too low to permit an immediate shift from the current system to a new one, even if this were feasible from organizational and operational perspectives.

FIGURE 2

CONSOLIDATED MAIL SERVICES SYSTEM: OVERVIEW WITH FUNCTIONAL LINKAGES AGENCY TO CENTRAL


CENTRAL SERVICES
AGENCY STRUCTURES
Assistant Secretary for Administration
Recommendation to Proceed to Next Level
Director, Mail Services Management
Review, Feedback, Planning
Interagency Management Advisory Council
Representatives of Agencies at Organizational Level of Assistant Secretary (Mail Managers)
Mail Information Unit
Review, Feedback, Planning
Office of Mail Services Operations
Information Link
Training Link
Agency Mail Coordinators (One Each Agency)
Agency Action Offices
Mail Circulation/ Accountable Mail Unit
Bulk Mail/ Mail Prep Unit
Courier Services Unit

- The proposed cutbacks in personnel need to be planned and phased in with proper attention to the impact on minorities and the handicapped, as well as with the appropriate consultation with the head of the collective bargaining unit.

- The success of the transition from old to new system depends on the quality of the planning during Phase I and the effective execution of all aspects of that phase. Without care at the start, it is unlikely that implementation of the new system will succeed.

A three-phase implementation will last up to 32 months, with Phase I taking from 12-20 months and Phases II and III each taking from 4-6 months. The goal to achieve the implementation in the shorter period hinges on leadership and the cooperation of all involved agencies. The complexity of the situation and the concerns of the agencies prescribe this extended timeline to allow for the thorough work necessary in Phase I. This assumes that the new system has been designated a special productivity project, that the agencies have agreed to collaborate on it, that the new kind of leadership proposed for the system is in place, and that other needed departmental resources have been made available to the project.

Phase I of the implementation will result in a reconfigured system that retains, during that phase, the independent agency mail rooms. See Figure 3 on the following page for the system organization at this point.

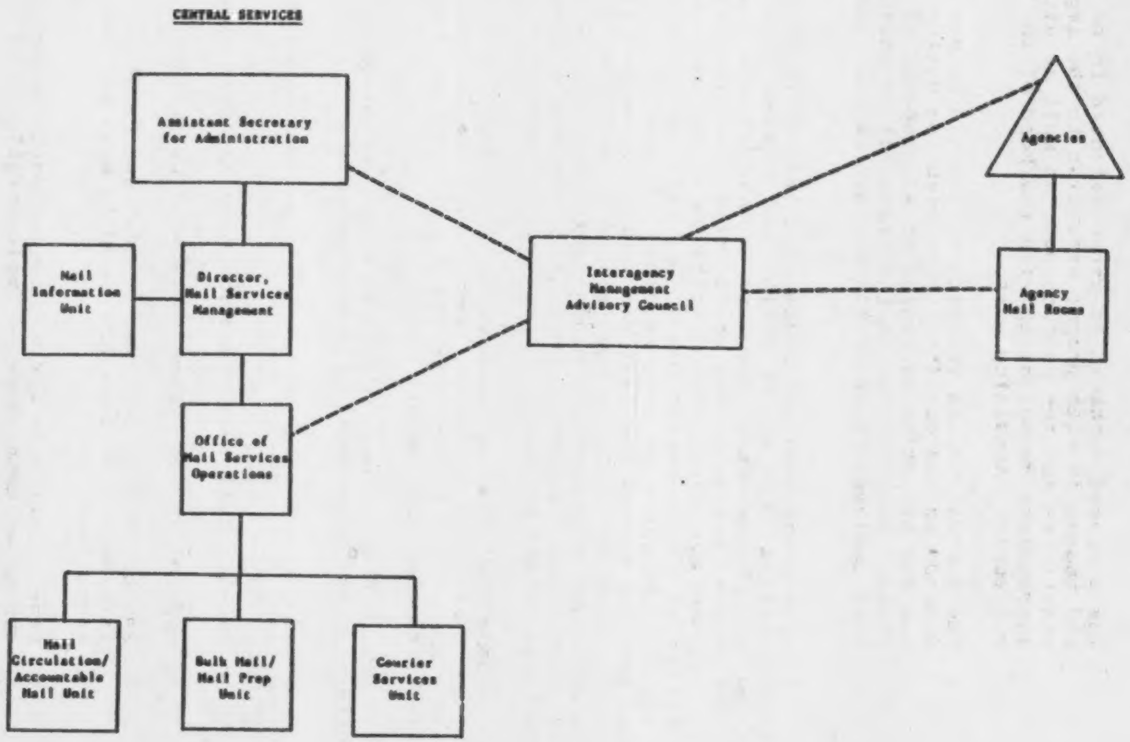
Phase I will be carried out in two stages. The major activities and milestones of stage one are:

System Level

- Develop full implementation plan and Pert charts
- Appoint senior personnel to mail operations
- Establish Mail Information Unit and develop information systems for managing mail and courier operations
- Develop criteria for evaluating performance of the system at each phase of implementation

FIGURE 3

SYSTEM ORGANIZATION: PHASE I


CENTRAL SERVICES
Assistant Secretary for Administration
Director, Mail Services Management
Mail Information Unit
Office of Mail Services Operations
Mail Circulation/ Accountable Mail Unit
Bulk Mail/ Mail Prep Unit
Courier Services Unit
Interagency Management Advisory Council
Agencies
Agency Mail Rooms

- Review entire personnel structure of current system, including agency mail rooms
- Develop full job descriptions for all personnel in new system and personnel implementation plan
- Develop quality circles/quality of work life plan for mail services system
- Develop mail management handbooks for system operations, agency mail coordinators, and agency action office personnel
- Develop working plan for consolidating ABDU, SBDU, and Auditors to centralized mode of operation
- Review and make recommendations on location and extent of metering
- Make physical changes necessary in operations unit for stage two

Department and Agency Level

- Appoint Interagency Management Advisory Council
- Appoint agency mail coordinators
- Review all Phase I activities and plans

The success of the entire implementation process is dependent upon the quality of the work done at this stage. The second stage of Phase I will involve the following activities and milestones:

System Level

- Implement operations of the Mail Circulation/Accountable Mail Unit
- Consolidate ABDU, SBDU, and Auditors to the centralized mode of operation
- Implement information systems for managing mail and courier service operations

- Implement training programs for agency mail coordinators

- Continue revision and updating of full implementation plan

Department and Agency Level

- Hold regular working meetings of Interagency Management Advisory Council (IMAC)

- Agency mail coordinators participate in workshops

- Agency action personnel participate in training workshops

- Agencies collaborate will Mail Information Unit in implementing information systems and directory

- Agencies respond to client surveys

- IMAC recommends move to Phase II of implementation

Phase II of the implementation will integrate the first group of agency mail rooms into the consolidated system. We have recommended two phases in the consolidation of agency mail rooms for two major reasons. First, the complexity and size of the consolidation is such that it requires such phasing to assure both a smooth transition and maintenance of effective service. It allows the client agencies to monitor progress more effectively and the system itself to work out any "bugs" before they become serious. Our second reason is to use the experience of exceptionally strong agency mail rooms in the implementation process. In particular, we recommend that the new leadership of the mail system work closely with APHIS, FS, and FAS in the entire process of implementation. These agencies have developed a number of successful approaches to mail management. We further recommend that the following mail rooms be consolidated in Phase II:

ASCS
ES Bulk
FmHA
FCIC/REA
OIG
SCS
SRS Bulk

The major activities and milestones of Phase II are:

System Level

- Consolidate selected agency mail rooms into centralized mode of operation
- Implement new routes designed to carry out consolidation
- Make final changes in physical set up of operations unit
- Continue training of system personnel to carry out consolidation
- Refine mail and courier information systems and directory
- Evaluate consolidation activities and processes
- Plan Phase III of implementation

Department and Agency Level

- Hold regular working meetings of IMAC
- Continue participation of coordinators and other agency staff in training workshops
- Respond to client surveys
- IMAC recommends move to Phase III of implementation

During Phase III, the last group of agency mail rooms will be added to the centralized system. The following mail rooms will be consolidated in Phase III:

APHIS
FAS
FS
FSIS

We anticipate that 4-6 months will be needed for each of the second and third phases. However, successful work in the first two phases may support a shorter time frame for the completion of Phase III.

The major activities and milestones for Phase III are:

System Level

- Consolidate final group of mail rooms into centralized mode of operation
- Implement final route plan for system
- Refine mail and courier information systems
- Continue training of system and agency personnel
- Refine handbooks and training materials
- Develop plan to move from special project to regular operational status
- Evaluate entire implementation process

Department and Agency Level

- Hold regular working meetings of IMAC
- Develop plan for role of IMAC in fully operational mode of system
- Respond to client surveys
- IMAC recommends move to fully operational status from special project status
- Assistant Secretaries appoint permanent IMAC representatives
- Department develops report on the project as model of innovation and productivity

The project will result in a fully consolidated mail service system, responsive to its clients, and providing levels of service in keeping with the changing needs of a diverse group of agencies. It will be able to respond to changes in both the short and longer terms through its information system and evaluation strategies. Continuing training and education of employees and attention to employee development will help to assure high levels of productivity. Continuing reviews of state of the art technology in relation to USDA needs will also assist in attaining these goals.

Summary Recommendations

11. The transition to a centralized system will be made in three phases over a maximum of 32 months, with goals established in the initial phase to accomplish this in a shorter period, if possible.

12. All new units will be established in Phase I and activities of the present central unit shifted to the new operational mode in 12-20 months; Phases II and III will consolidate the agency mail rooms on a schedule developed in Phase I. Each of these two phases will occur in a 4-6 month period.

The General Services Administration has recently released a report on mail management in federal agencies. This was not availableearly enough to integrate its findings into our major deliverables. However, many of its recommendations closely parallel those we have made. As a final note we present a comparison of GSA recommendations keyed to the system proposed for USDA. Chart I on the following pages lays these out.

We do not suggest that adopting the system and program for implementation we propose will be easy. It will, however, be rewarding, and provide USDA with a model for effective mail management as well as one for achieving organizational change within a large federal agency. The rewards are well worth the risks and work required.

CHART I

USDA RECOMMENDED SYSTEM LINKED TO GSA RECOMMENDATIONS

GENERAL SERVICES ADMINISTRATION	NEW USDA SYSTEM
Overall Management:	
GSA cites 44 U.S.C. 3504 and 3505 to place responsibility for mail management in area of information resources management	New USDA system recommends mail be recognized as part of information resources management area, located their operationally after implementation as special productivity project
Specific GSA REcommendations:	
ESTABLISH A CENTRAL MAIL MANAGEMENT PROGRAM	
Assign to a single mail manager the overall authority to conduct independent studies; establish operating standards; issue agencywide mail management directives; review cost center plans (both operating and contracted mailing); approve mail classes, equipment, directives training, and systems; approve any cost center's annual expenditures that exceed $20,000 for postage, alternate carriers, contract and grantee mailing services, and equipment; refuse acceptance of incoming mail; examine the contents of outgoing mail pieces; and promote agencywide mail management. Exclude the manager from any responsibility for mail operations (e.g., mailroom supervision) if the agency's annual mailing costs exceed $100,000	● Establish Office of Director of Mail Services, including most of responsibilities listed in GSA recommendations ● Include in Director's office Mail Information Unit to provide data and information necessary to manage system

(Chart I cont'd)

GENERAL SERVICES ADMINISTRATION	NEW USDA SYSTEM
ESTABLISH A COST CENTER PROGRAM FOR EACH AGENCY COMPONENT EXCEEDING 5 PERCENT OF THE TOTAL ANNUAL AGENCY MAILING COST	
Include as cost centers only those agency components equalling 5% or more (omitting those with less than $5,000 annually) of total annual costs for postage (and fees), alternate carriers, contract and grantee mailers, labor, supplies, and equipment. Cost center recordkeeping should cover outgoing, incoming and internal operations and include a minimum of volume, costs, mail class, frequency, weight, mailing zone (when appropriate), supplier, service fees and surcharges, mailing supplies, and major automated equipment	● Responsibility of Mail Information Unit, total system as well as individual cost center monitoring ● MIU also provides technical assistance to agency mail managers in this area
PROVIDE IMMEDIATELY ADEQUATE RESOURCES TO OPERATE A MAIL MANAGEMENT PROGRAM THAT IS EFFECTIVE, EFFICIENT, AND ECONOMICAL	
Include sufficient space, equipment, supplies and staffing. The staffing number, skills, and grades should be commensurate with the agency's mailing volume, number of sites, and total employment	● Designate mail reform special productivity project ● Appoint new leadership at GM-15 to SES level ● Implement new system, with reconfigured staffing, space, routes in three-phase implementation to begin as soon as Director appointed ● Provide other USDA assistance as needed in mail reform (Office of Personnel, Working Capital Fund, etc.)

(Chart I cont'd)

GENERAL SERVICES ADMINISTRATION	NEW USDA SYSTEM
DEVELOP A SYSTEM TO COLLECT AND MAINTAIN AGENCYWIDE MAIL DATA	
Use the instructions issued by GSA for data requirements	• Mail Information Unit monitors, collects, analyzes, stores all data needed to manage system: 1. Volume and flow patterns of incoming, outgoing, chain mail 2. Mail class and carrier 3. Postage costs 4. Central mail service system costs 5. User satisfaction • Mail Information Unit serves as liaison to groups planning electronic mail systems
CONDUCT AN ANNUAL PROJECT FOR MAIL ECONOMY	
Develop at least one agencywide project each fiscal year to reduce agency mailing costs. Analysis of mail data should be used to select and plan these projects	• New system develops special projects in mail economy for entire Department • New system provides technical assistance to individual agencies in mail economy projects

CENTRAL SUPPLY STORES

Mr. WHITTEN. You also state on page 2g–13 of the notes that the productivity for central supply store employees has increased 15 percent. Please explain for the record how this was accomplished.

Mr. FRANKE. We have made continuing efforts over the past two years to reduce the cost of providing services. Through realignment of operations and attrition, we have reduced staffing by two positions, or 22 percent. The stores have also taken on the responsibility for providing passport photo services. While our operating expenses have been reduced by $99,000, our FY 1985 workload increased by 23 percent over FY 1984. Our estimated 15 percent productivity increase is extremely conservative.

Mr. WHITTEN. How do the prices of the USDA Central Supply Stores compare with GSA prices?

Mr. FRANKE. The item prices for common supplies stocked by GSA and the USDA Central Supply Stores are identical. However, in order to provide USDA with the timeliness and convenience of an on-site store facility, to provide warehousing of supplies, and to enable agencies to avoid paying for space they would have to use to store supplies, additional fixed costs must be incurred and are assessed to Stores users on the basis of the dollar volume of each agency's purchases. This added cost is reflected in subsequent billings to agency users.

VIDEO CONFERENCES

Mr. WHITTEN. On page 2g–14 of the explanatory notes you state that 16 video conferences were produced in video and film centers. Please provide for the record a list of the 16 video conferences, providing the subject of the conference and the cost of each.

[The information follows:]

(1) Subject Cost: "Farm Bill"; $3,084.00.
(2) Subject Cost: "Residue Avoidance"; $1,172.50.
(3) Subject Cost: "Uplink Message"; $10,862.00.
(4) Subject Cost: "Farm Bill"; $2,169.00.
(5) Subject Cost: "Farm Bill"; $3,135.00.
(6) Subject Cost: "Farm Bill"; $442.00.
(7) Subject Cost: "Farm Bill"; $2,252.25.
(8) Subject Cost: "International Trade"; $2,288.00.
(9) Subject Cost: "Cargo Preference Act"; $2,263.00.
(10) Subject Cost: "New Budget Figures Related to Farm Bill"; $2,263.00.
(11) Subject Cost: "What U.S. Is Doing To Aid World Hunger"; $2,751.75.
(12) Subject Cost: "Nonpoint Source Pollution in Kansas City, MO"; $1,437.40.
(13) Subject Cost: "Tax Reform And The Farm Situation"; $1,471.50.
(14) Subject Cost: "Farm Policies"; $3,638.95.
(15) Subject Cost: "Agricultural Communicators in Education" (ACE); $1,662.75.
(16) Subject Cost: "Farm Bill"; $1,802.50.

PHOTOGRAPHY SERVICES

Mr. WHITTEN. You state on page 2g–15 of the explanatory notes that the photography service was discontinued in 1985. What was the cost of this service? Where do you presently obtain photography service, and how much was saved by discontinuing the central service?

Mr. FRANKE. Mr. Chairman, during fiscal year 1985 the operations of the Department's Photography Services Unit were discontinued. With the closing of in-house operations all film processing and a substantial portion of the film shooting is now contracted to the private sector. Costs are recovered by means of reimbursable agreements with USDA agencies. The FY 1985 cost of the WCF Photography Services Unit was $810,000.

The closing of this WCF unit was based on the determination that services could be provided at the same or lower cost commercially. The closing resulted in staff year savings and avoided the need for continued capital investment in this operation. The dollar value of the savings due to the shift from the WCF to outside commercial contracts would be difficult to assess since the type and quantity of services obtained varied.

A-76 REVIEWS

Mr. **Whitten.** What specific centralized services are scheduled for A-76 reviews in 1986 and 1987 to determine their continued applicability as centralized services and to analyze alternative operating methods?

Mr. **Franke.** During FY 1986 we completed a productivity study of our Departmental computer centers in Fort Collins, Colorado; Kansas City, Missouri; Washington, D.C.; and the National Finance Center in New Orleans, Louisiana. This study, which offered short- and long-term productivity improvement recommendations, was performed by an outside contractor in line with A-76 requirements.

In the Office of Operations, A-76 reviews are scheduled to begin in the areas of Central Supply Stores—FY 1986-87, Copier Services—FY 1987, and Chauffeur Services—FY 1987.

Mr. **Whitten.** In last year's record you stated that a productivity study of the Washington Computer Center, Kansas City Computer Center, the Fort Collins Computer Center, and the National Finance Center were scheduled to begin in fiscal year 1986. Have those studies been completed? If so, please provide copies for the record.

Mr. **Franke.** Mr. Chairman, the short- and long-term phases have been completed, and we are happy to provide copies of the reports to you.

[Clerk's note.—The reports are too lengthy to be reprinted in the record. Copies will be retained for the files.]

COMPUTER CENTER OPERATIONS

Mr. **Whitten.** Please submit for the record a table similar to the one on page 378 of last year's record showing the net increase in recurring operations at each computer center.

[The information follows:]

NET INCREASE IN RECURRING OPERATIONS

Computer Center	Inflation	Workload	Operating costs	Total	Net increase or decrease in capital procurement
Washington Computer Center	$211,000	$0	($1,054,000)	($843,000)	($1,449,000)
Fort Collins Computer Center	161,000	1,883,000	767,000	2,811,000	(5,225,000)
Kansas City Computer Center	145,000	834,000	243,000	1,222,000	(306,000)

NET INCREASE IN RECURRING OPERATIONS—Continued

Computer Center	Inflation	Workload	Operating costs	Total	Net increase or decrease in capital procurement
Computer Services Unit	20,000	0	38,000	58,000	(231,000)
Net change	537,000	$2,717,000	(6,000)	3,248,000	(7,211,000)

NON-USDA REIMBURSEMENTS TO THE WORKING CAPITAL FUND

Mr. WHITTEN. Please provide for the record a list of all non-USDA reimbursements to the Working Capital Fund, identifying the source of the reimbursements and describing the services provided in 1985 and the estimates for 1986 and 1987.

[The information follows:]

NON-USDA REIMBURSEMENTS, 1985–1987

User	Cost of services—Fiscal years		
	1985	1986	1987
Kansas City Computer Center:			
General Accounting Office	$3,403	$4,268	$4,871
Department of Labor	112,375	143,640	163,904
Social Security Administration	219,741	0	0
Army	116,761	0	0
Other	0	0	354,836
Total	452,280	147,908	523,611
Washington Computer Center:			
Bureau of Engraving and Printing	3,699	18,000	20,000
Corps of Engineers	337,214	345,840	371,840
Equal Employment Opportunity Commission	227,451	139,400	140,400
General Accounting Office	209,387	135,000	136,000
USDA Graduate School	43,660	24,000	26,000
International Trade Commission	4,783	5,000	5,000
General Services Administration	17,195	12,000	13,000
Department of the Interior	3	15,000	17,000
Navy Publications	893,178	1,178,864	1,268,864
World Bank	1,958	5,000	5,000
NAVSEA	42,570	100,000	108,000
Department of Defense/Inspector General	0	250,000	270,000
Office of Management and Budget	88	0	0
Department of Commerce	2,448	0	0
General Services Administration (IG)	63	0	0
General Services Administration (software)	302	0	0
Air Force FEDSIM	1,464	0	0
Department of Labor	0	100,000	108,000
General Service Administration (Fed. Acquisition Inst.)	7,423	4,000	4,000
Defense Mapping Agency	0	3,000	3,000
Bureau of Public Debt	2,796	6,000	6,000
EASA Army Engineers	66,284	6,500	6,500
Department of Energy	0	150,000	162,000
New Business	0	100,000	750,000
Total	1,861,966	2,597,604	3,420,604
Fort Collins Computer Center:			
Department of Commerce	2,001	84,000	100,000
Department of Defense	443	150,000	800,000

NON-USDA REIMBURSEMENTS, 1985–1987—Continued

User	Cost of services—Fiscal years		
	1985	1986	1987
Department of Energy	0	500	500
Environmental Protection Agency	0	0	30,000
Department of the Interior	69,041	69,500	69,500
Department of the Treasury	0	70,000	500,000
Miscellaneous States	18,261	20,000	20,000
Total	89,746	394,000	1,520,000
Central Supply Stores:			
USDA Graduate School	32,839	20,000	22,000
Export Commission	0	473	490
General Accounting Office	0	480	497
Total	32,839	20,953	22,987
Department of Commerce [1]	0	0	70,000
Total	0	0	70,000
National Finance Center:			
Department of Education	386,000	388,600	474,144
Merit Systems Protection Board	84,500	89,184	92,751
Department of Commerce	773,359	1,543,800	3,020,500
U.S. Information Agency	0	12,800	39,500
Federal Mine Safety and Health Review Commission	0	11,514	5,350
Total	1,243,859	2,045,898	3,632,245
Office of Governmental and Public Affairs:			
Department of Transportation	27,500	0	[2] 0
USDA Graduate School	285	0	[2] 0
National Council on Trade and Export	0	20,000	[2] 0
Ag Council of America	0	24,000	[2] 0
People to People Committee on the Handicapped	0	3,300	[2] 0
Total	27,785	47,300	[2] 0

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[1] USDA currently negotiating with DOC to stock and distribute DOC forms on a reimburseable basis in fiscal year 1987.

[2] No fiscal year 1987 projects are currently scheduled.

SUMMARY OF THE WORKING CAPITAL FUND INCREASES AND DECREASES

Mr. **WHITTEN**. Please submit for the record an update of the tables on pages 387, 388, and 389 of last year's record, showing a summary of increases and decreases of the Working Capital Fund by program activity.

[The information follows:]

Working Capital Fund

SUMMARY OF INCREASE AND DECREASES
(Program Activity)

Item of Change	1986 Estimated	Program Changes	1987 Estimated
1. Supply & Other Central Services ..	$7,917,000	+$295,000 (1)	$8,212,000
Central Supply Stores	2,083,000	-27,000	2,056,000
Central Supply Forms	2,003,000	+64,000	2,067,000
Mail Distribution Service	1,717,000	+16,000	1,733,000
Automated Mail List	231,000	+1,000	232,000
Executive Corresp. & Records	511,000	+4,000	515,000
*Central Shipping & Receiving	291,000	+209,000	500,000
*Central Excess Property	584,000	+25,000	609,000
*Departmental Training Programs	497,000	+3,000	500,000
2. Reproduction Services	3,405,000	-934,000 (2)	2,471,000
Printing Plant	1,082,000	-1,082,000	0
Copier Service	2,323,000	+148,000	2,471,000
3. Video & Film, & Visual Design Services	3,045,000	-140,000 (3)	2,905,000
Video and Film	936,000	+47,000	983,000
Visual Design Services	2,109,000	-187,000	1,922,000
4. Office of Finance & Management ...	45,310,000	+3,630,000 (4)	48,940,000
Headquarters	646,000	+123,000	769,000
National Finance Center	44,664,000	+3,507,000	48,171,000

SUMMARY OF INCREASE AND DECREASES
(program activity)
(continued)

5. ADP Services	47,443,000	+1,572,000 (5)	49,015,000
Washington Computer Center	12,902,000	-843,000	12,059,000
Fort Collins Computer Center	13,147,000	+2,811,000	15,958,000
Kansas City Computer Center	15,898,000	+1,222,000	17,120,000
Computer Services Unit	880,000	+58,000	938,000
*Telephone Operations	816,000	+8,000	824,000
*Local Area Network	300,000	+50,000	350,000
Total Recurring Operations	$103,620,000	+$6,157,000	$109,777,000
Capital Equipment Acquisition	12,662,000	+2,046,000 (6)	14,708,000
Total	116,282,000	+8,203,000	124,485,000
Adjustment for Comparability	-2,488,000	+2,488,000	0
Total	$113,794,000	+$10,691,000	$124,485,000

PROJECT STATEMENT
(On Basis of Program Activity)

Project	1985		1986 (Estimated)		Increase or Decrease	1987 (Estimated)	
	Amount	Staff-Years	Amount	Staff-Years		Amount	Staff-Years
1. Supply & Other Central Services	$7,699,000	97	$7,917,000	98	+$295,000	$8,212,000	95
Central Supply Stores	1,610,000	8	2,083,000	9	-27,000	2,056,000	9
Central Supply Forms	2,190,000	3	2,003,000	3	+64,000	2,067,000	3
Mail Distribution Service	1,743,000	58	1,717,000	58	+16,000	1,733,000	57
Automated Mail List	210,000	3	231,000	3	+1,000	232,000	3
Executive Corresp. & Records	527,000	12	511,000	12	+4,000	515,000	10
*Central Shipping & Receiving	266,000	1	291,000	1	+209,000	500,000	1
*Central Excess Property	717,000	6	584,000	6	+ 25,000	609,000	6
*Departmental Training Prog.	436,000	6	497,000	6	+ 3,000	500,000	6
2. Reproduction Services	3,441,000	53	3,405,000	43	-934,000	2,471,000	31
Printing Plant	1,446,000	23	1,082,000	14	-1,082,000	0	0
Copier Service	1,768,000	27	2,323,000	29	+148,000	2,471,000	31
Photocomposition	227,000	3	0	0	0	0	0
3. Video & Film, & Visual Design Services	3,269,000	21	3,045,000	21	-140,000	2,905,000	21
Video and Film	820,000	8	936,000	9	+47,000	983,000	9
Photographic Service	470,000	2	0	0		0	0
Visual Design Services	1,979,000	11	2,109,000	12	-187,000	1,922,000	12

PROJECT STATEMENT
(on basis of program activity)
(continued)

4. Office of Finance & Mgmt	44,105,000	1,202	45,310,000	1,197	+3,630,000	48,940,000	1,184
Headquarters	368,000	6	646,000	8	+123,000	769,000	8
National Finance Center	43,737,000	1,196	44,664,000	1,189	+3,507,000	48,171,000	1,176
5. ADP Services	42,351,000	238	47,443,000	245	+1,572,000	49,015,000	236
Washington Computer Center	10,506,000	70	12,902,000	79	-843,000	12,059,000	75
Fort Collins Computer Center	13,719,000	82	13,147,000	82	+2,811,000	15,958,000	77
Kansas City Computer Center	14,502,000	77	15,898,000	74	+1,222,000	17,120,000	74
Computer Services Unit	749,000	7	880,000	7	+58,000	938,000	7
*Telephone Operations	800,000	1	816,000	2	+8,000	824,000	2
*Local Area Network	1,925,000	1	300,000	1	+50,000	350,000	1
Total Recurring Operations	$100,713,000	1,611	$103,620,000	1,604	+$6,157,000	$109,777,000	1,567
Capital Equipment Acquisition	9,088,000	0	12,662,000	0	+2,046,000	14,708,000	0
Total	109,801,000	1,611	116,282,000	1,604	+8,203,000	124,485,000	1,567
Adjustment for Comparability	-4,142,000	-15	-2,488,000	-16	+2,488,000	0	0
Total	$105,659,000	1,596	$113,794,000	1,588	+$10,691,000	$124,485,000	1,567

* These activities will be transferred to the Working Capital Fund in FY 1987 the dollars amounts for FY 1985 and FY 1986 are shown for comparability purposes.

Mr. **Whitten**. Mrs. Smith.

INCREASED PRODUCTIVITY

Mrs. **Smith**. We want to welcome you here. I appreciated learning about your interest in increasing productivity and efficiency, as well as improving management within the Department. I also appreciated your comments about any reductions being accomplished with the least possible disruption out across the country. I'm not sure that every agency of the Federal government tries to do it that way.

I'm glad that your department managers are here, and let me say to all of you that all of us know how much we benefit through the years from the work of USDA all across the board. I look back at my own life. I told the Extension folks yesterday how I started out as a 4-H Club member and how much I learned. I went as a teen-age bride to western Nebraska where my husband and I raised certified seed potatoes and sent them to Mississippi for twenty years—we didn't know a blessed thing about certified seed potatoes, but the USDA held our hand and taught us. We got an award from the Omaha Chamber of Commerce for being Nebraska's best poultrymen. We didn't know a thing about poultry either.

But all of this helps in productivity, marketing, and in community life; and it came from the USDA. This is very, very significant to America, and I want you to know that I realize it.

Mr. **Franke**. Thank you.

Mrs. **Smith**. I also want to apologize to my two distinguished colleagues for downgrading them. I had no more than said that I thought the only two Congressmen left in Washington were Mr. Whitten and myself, and you two walked in.

[Laughter.]

Mr. **Skeen**. We got your message.

[Laughter.]

CROSS SERVICING

Mrs. **Smith**. Would you please explain for the committee what administrative cross-servicing USDA is doing with other agencies in the government, and tell us how this is working.

Mr. **Franke**. As I mentioned, our National Finance Center in New Orleans has a long track record of efficiencies. We've been able to develop additional programs and have done a lot, with a great deal of assistance from this committee, on improving some of our hardware. We've been able to develop payroll-personnel systems, and administrative payment systems. We have been able to practice cash management in many areas that are very successful programs. Other departments and agencies saw this—Education, Commerce, Merit Systems Protection Board, others—and, through negotiations with Agriculture, saw that it would be very cost-effective for them to adopt our program.

We wouldn't have been able to do that unless we had an effective system. So the kudos certainly go the Agriculture employees that do these sorts of things.

What we do in cross-servicing goes even further. In the course of our conversations with other executive departments we try to find out if there are areas in which maybe they have a very effective administrative system or procedure of some type. I am speaking, for example, of receiving and mail, operation of vehicles, those sorts of things. If we find a good operation, a cost-effective operation, we would try to do the same thing in the same way, or consider their servicing us.

Within Agriculture, many of our agencies carry out procurement processes and personnel activities—perhaps they are redundant. We rely heavily on a bottom-up approach for such matters to get employee involvement. We visit with our employees at the grassroot level. We ask whether administrative functions can be performed better without harming Agriculture programs.

It's a pleasure to give this committee the response—and I am certain you know it much more than I do—the willingness of the Agriculture employee across the board to say, yes, there's a better way of doing something.

And so therefore we call it cross-servicing or we call it joint venture. And in not only large programs involving millions of dollars, but in small programs too—just giving a hand to a neighbor somewhere, and that's kind of the story of agriculture.

So we keep it rather simplistic, and some of the more sophisticated departments laugh at us at times. But this is the only way we are able to accommodate many of these efficiencies that allow us to operate with fewer dollars.

DEPARTMENTAL MANAGEMENT AND ADMINISTRATION

Mrs. SMITH. Is it beneficial to the government to do this?

Mr. FRANKE. Cross-servicing is one of those rare instances where everyone wins. The benefits accrue Government-wide by sharing systems and expertise, and by lowering overall costs and total personnel requirements. The benefits accrue to the non-USDA agency receiving the services by lowering their operating costs, reducing their staffing requirements, and by their receiving enhanced services from superior systems. For example, the Departments of Agriculture and Commerce project combined savings of about $4 million in the first three years that consolidated warehouses are operational. The savings come largely from eliminating duplicate facilities and achieving economies of scale. At the same time service will be improved because of better inventory controls and more timely delivery scheduling, among other things.

Similar benefits flow from cross-servicing by the National Finance Center. In 1986, NFC service charges to USDA agencies were hundreds of thousands of dollars lower than they would have been without cross-servicing. Operational savings to non-USDA users are estimated at $1.1 million for the same period. The Department of Commerce estimates that it avoided costs of $9–10 million by converting to the NFC payroll/personnel system rather than developing its own system.

Non-USDA users pay their fair share of NFC costs for systems development and maintenance, equipment depreciation and other items. The total amount of money spent in these areas would be essentially the same with or without cross-servicing. Since a greater number of users are sharing the same base costs, the amount for each user goes down. At times, a little more money can be invested in systems modernization to bring the benefits of accelerating technological change to users more quickly without increasing the cost to individual users. This is possible when more users are sharing costs of a more cost efficient system, and represents a major reason why we want to increase cross-servicing.

Mrs. **Smith.** I appreciate that very much. I have no further questions, Mr. Chairman.

Mr. **Whitten.** Mr. Myers.

Mr. **Myers.** Well, thank you, Mr. Chairman, I have no questions, just a comment. As we search for ways to hold the line on expenditures, I guess it's going to put a greater burden on you within the Department of Agriculture to hold people's hands and to help find how we might be more effective—and I would certainly support you in that regard.

EMPLOYEE SUGGESTIONS

Mr. **Franke.** If I might, Mr. Myers, I think the support—and I'm not playing a politician here at all, the support—.

Mr. **Myers.** Why not?

Mr. **Franke.** Well, I've been one for 20 years, starting with PTA.

Mr. **Myers.** That's real politics.

[Laughter]

Mr. **Franke.** That's right, that's a killer. But we simply put word out to our offices in Mississippi, Indiana, Nebraska, California, wherever—we put out word to our offices and say there should be a better way to do something, can you give us a suggestion, no matter how outlandish you think it may be, and they tell us; they are very outgoing. And we can shift some of those things.

So the hand-holding many times takes place with the folks in the field holding my hand and saying this can be done if you have a little bit of fortitude. A great deal of that takes place.

Mr. **Myers.** They hold your hand instead of your—.

Mr. **Franke.** That, too.

Mr. **Myers.** Thank you.

Mr. **Whitten.** Mr. Skeen.

GOVERNMENT PRINTING

Mr. **Skeen.** Thank you, Mr. Chairman. I want to commend you for your emphasis on efficiency in taking a look at your operation, and where you can make it work better.

Let me ask you just one question.

Government printing is one area that I've become very interested in. Do you have any jurisdiction over the printing policies of the USDA?

Mr. **Franke.** Yes, sir.

Mr. **Skeen.** I assumed that you did.

Mr. **Franke.** It's a split responsibility in that my office through Mr. Gearde in the Office of Operations oversees the actual physical printing. The policy as to what is printed in publications falls in Mr. Mizell's office.

Mr. **Skeen.** But it's still under your jurisdiction.

Mr. **Franke.** That's right.

Mr. **Skeen**. And what I am curious about is how often you do an analysis. You have your own printing plants, do you not, in the Department of Agriculture?

Mr. **Franke**. Yes, in many cases. But in the National Capital Region, for example, we had a large printing operation. We've had a three-year shut-down process.

Mr. **Skeen**. That's phasing it down.

Mr. **Franke**. That's phasing it down. This will be the final year. We will recover space certainly, but we approach this after a great deal of study. And part of the difficulty in printing is aging equipment. We had very old equipment. We can do it much more effectively through contracting out or utilizing the Government Printing Office.

Mr. **Skeen**. That was the last question, and you've already presumed that. Do you deal with the Government Printing Office?

Mr. **Franke**. Absolutely.

Mr. **Skeen**. Have they been helpful to you?

Mr. **Franke**. Yes.

Mr. **Skeen**. In cutting those costs?

Mr. **Franke**. The Government Printing Office has difficulties, as do others, because—on the surface it looks very easy, simply going to more quantity and print more things and the costs go down. That's not always true, because there are items that must be printed fast that they can't accommodate. Other departments operate some printing plants that we contract with occasionally. But by and large we have an excellent relationship with the Government Printing Office.

And they face much the same dilemma we did when we were operating a printing plant, labor costs are high, stock is high, turnaround time is necessary—so most of the work you get is emergency—you can't phase it in. Everything happens at 8 o'clock in the morning, and so you gear for that. And if you could print some things at midnight, it would probably be a lot cheaper. But that's not always possible.

Mr. **Skeen**. But I understand that the Government Printer is also very much interested in reducing costs across the board. And one of your largest expenses, I would assume, has been your printing costs.

Mr. **Franke**. Absolutely. We are trying to reduce paper, but it's still there.

Mr. **Skeen**. If you could cut it in half—and there are some new technologies coming on now—satellite transmissions and laser technologies are all very exciting. I appreciate your response.

Thank you, Mr. Chairman.

FIELD PERSONNEL

Mr. **Whitten**. Thank you very much. I've been on this Committee a long time. Talking about personnel, OMB has frequently limited the number of people you could have in Washington. Our Committee has never done that on the grounds that you can detail somebody from the field to Washington and it costs us more money than to have a regular person in Washington.

So we have gone along—and I believe that you have done a reasonably good job in handling the personnel end of the Department.

At the local field level we have some complaints. One of the major problems, in my opinion, that we have in Agriculture is because the Office of Management and Budget historically, not just the last few years, has not gone along with the personnel that Congress has provided. The Farmers Home Administration, as it was organized and as it was intended, needed people to supervise and help folks to meet their responsibilities. A big part of our financial problem is because FmHA hasn't the personnel to oversee the handling of the applications and loans.

Another major problem comes because in the Emergency Act of some six or eight years ago, which made the TV show "60 Minutes," there were no limits on what you could do. In some States, where a man had three farming operations, and he got rich on two and lost on the third, the Department would pay him on the loss. Folks were actually invited to borrow cheap money. This was unbelievable.

Subsequent to that we had the PIK program where millionaires were made in some instances, while others went broke. Also, under PIK we lost 11 percent of our producing acreage to overseas competitors.

And one of the things that I see and fear in the new 1985 farm bill where you pay a fellow not to farm. You will take him out of business and in two or three years we will give up the remainder of our foreign markets.

These are far beyond the political problems of any one party. We've just forgotten that agriculture is basic. And the Office of Management and Budget doesn't seem to realize that agriculture is the foundation of our economy instead of an appendage to the operation of government.

What we can do here, I don't know. My own recommendation is that we protect agriculture—our biggest industry, that supplies the cheapest and best food, and the biggest dollar earner in world trade. How the Administration can kick farmers in the teeth, I don't understand.

Also my recommendation is that we keep the conservation programs we've had, based on the fine record that they have made.

I want to compliment you again for the way you have handled things in Washington. I don't know that you have had control in the field. Those who have that control haven't done nearly as good a job. Maybe our problem is with the Office of Management and Budget, which has not provided the personnel when needed.

Some years ago we provided separate money for personnel so they couldn't use it for any other purposes. We yielded in the Senate. But I wonder again if we are not going to have to have a separate item again so, if you don't get the people you need to have, you can't use the money for something else.

Do you have any comment on that?

EFFECTIVE COMMUNICATIONS

Mr. Franke. A brief comment, Mr. Chairman, if I might. One of the things that we face, as you do, is the problem of communication. I think we all desire the same results, but we have differences on the methods. It's very difficult for us with a large field organization to communicate immediately. It's difficult from a people standpoint to even interpret one another.

I think what we are about and what we are attempting is an instantaneous electronic communication, once we can ever master that so the person in Tupelo at the same time as Tucumcari can hear what we are saying and meaning in Washington at the same time. I think that feedback will help to guide us. And I think we have the technology, and we have the system, but aren't utilizing it correctly.

I think the same thing holds true with other Federal offices.

Once we can devise a method whereby people can communicate effectively, I think we can accomplish a great deal. Whatever the office, whether it's the Office of Management and Budget or Office of Personnel Management, or the Department of Agriculture—we have excellent communications once we are one on one.

But when we talk as groups, we have a very difficult time.

Mr. **Whitten**. Thank you very much for your appearance, and I know we can continue to work together, as we have in the past.

Mr. **Franke**. Thank you, Mr. Chairman. Thank you, Mrs. Smith.

[Statements follows:]

OFFICE OF THE SECRETARY, AND DEPARTMENTAL ADMINISTRATION

Statement of John J. Franke, Jr., Assistant Secretary for Administration Before the House Subcommittee on Agriculture, Rural Development and Related Agencies

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear today to discuss with you the activities and fiscal year 1987 budget request for the Office of the Secretary, Departmental Administration, Advisory Committees, GSA Rental Payments and Building Operations, and the services provided to USDA agencies through the Department's Working Capital Fund.

First, we fully support the President's budget, which meets the deficit reductions required under the Balanced Budget and Emergency Deficit Control Act and will do our part to help achieve the reduced level of government spending necessary. Mr. Chairman, the Gramm-Rudman-Hollings reductions will continue a process we began earlier and will continue, that is, increasing our managerial effectiveness, carefully examining our workloads, reassessing duties and procedures, consolidating and realigning duties and activities. Our management initiatives are beginning to pay dividends now, so that we plan to operate within the reduced levels available in FY 1986 and FY 1987, and yet to continue support to the program agencies of the Department. We will look for further ways to increase our productivity through use of ADP and office automation, to foster good management practices so as to provide administrative support with fewer people. We know we must. As required reductions continue over future years, we will have to alter not only the way we do business, but also the levels of support we can provide. Reductions in support levels will be accomplished in the least disruptive manner. I would like now to review some of the specifics of the 1987 budget.

OFFICE OF THE SECRETARY

The appropriation for the Office of the Secretary provides funds for the Secretary, the Deputy Secretary, the Under and Assistant Secretaries and their supporting staffs. The fiscal year 1987 budget request for the Office of the Secretary totals $5,538,000, a net decrease of $166,000 below the current estimate for fiscal year 1986. This consists of a reduction of $373,000 in Small Community and Rural Development for contracts that will be discontinued and an increase of $207,000 for priority operating costs in nonpersonnel related areas, e.g., telephone and data communication services, supplies and equipment. We have proposed one account for these offices with the identity of each individual office as a line item within the account.

DEPARTMENTAL ADMINISTRATION

The fiscal year 1987 budget request for Departmental Administration is $21,920,000, a net decrease of $155,000 (about 1 percent) under fiscal 1986. The budget indicates an increase due to the shifting of $2,994,000 in budget authority from USDA agencies to Departmental Administration for activities previously financed by reimbursable agreements; offset by decreases of $596,000 in management savings, as well as a shifting of $93,000 from Departmental Administration to the Office of Governmental and Public Affairs for formerly reimbursable activities in that Office. The decision to refinance these reimbursable activities was made after study and review by a Task Force which included user agencies.

Also included in the FY 1987 request is an increase of $394,000 for the Office of Advocacy and Enterprise to strengthen the programs administered by this Office. This Office was created in FY 1985 to consolidate the offices of

Equal Opportunity, Small and Disadvantaged Business Utilization, and the Minority Research and Teaching Programs, formerly part of the Office of Grants Programs Systems. Last, we request a $47,000 increase for the Office of Administrative Law Judges to maintain ADP equipment purchased in prior years to help that small office to keep pace with its workload and for increased operating costs that are not personnel related.

ADVISORY COMMITTEES

The FY 1983 Appropriation Act established a consolidated account for USDA Advisory Committees. The FY 1987 budget request for Advisory Committees is $1,323,000. This is a $8,000 increase from the FY 1986 level of $1,315,000.

Advisory Committees assist the Department by providing USDA agencies with supplemental and specialized expertise from academia or the private sector on a broad range of issues. It would not be feasible to maintain these experts as permanent staff so Advisory Committees provide a way to get these services on an as needed basis. The total number of committees in the budget drops from thirty-five in FY 1985 to thirty in FY 1987. Eleven are established by statute, and the remainder are established by the Department either independently, or with the concurrence of interested Congressional Committees. Since the budget was developed, passage of the Farm Bill has affected the number of committees. Under the Farm Bill, the Technical Advisory Committee for Science and Education Grants Programs was terminated and five more committees are to be set up. We are looking into that even now and will report to you as these committees are chartered and proceed to meet. We will have to fund these within requested resource levels.

RENTAL PAYMENTS AND BUILDING OPERATIONS

This account funds payment for rental of space and related services received by the Department's agencies from the General Services Administration.

Also provided in this account are funds for the Departmental staff and support services to operate, maintain and repair the five buildings in the Washington, D. C. complex. The General Services Administration retains overall responsibility for major non-recurring repairs.

The fiscal year 1987 budget request is $76,180,000. This is $7,474,000 (or about 11 percent) above the current 1986 budget level. Rental payments to GSA total $57,380,000 and the operation and maintenance of the D.C. Building Complex accounts for the balance of $18,800,000. Of the $7,474,000 total increase, $6,367,000 represents increased payments to GSA attributable to rate increases provided by GSA in selected geographic regions applied to the existing inventory of space occupied through September 30, 1987. The remaining increase of $1,107,000 represents additional funding for maintenance and repair of the D.C. complex of buildings to insure compliance with fire and safety code specifications.

WORKING CAPITAL FUND

For forty-two years, USDA has been providing central services to its agencies through the Working Capital Fund (WCF). Since its beginning, we have sought to provide the best services possible at the lowest cost. USDA and the Congress can take pride in the fact that these efforts have been largely successful. Perhaps some background will show where we stand and what we have accomplished in the Fund.

The National Finance Center in New Orleans, Louisiana is the largest WCF activity. The Center serves as a model for the entire Federal Government, pointing the way to effective provision of centralized finance, accounting, payment, personnel, property management, data processing, and recordkeeping. Departmental Computer Centers in Washington, DC; Kansas City, Missouri; and Fort Collins, Colorado, provide cost effective data processing services to USDA agencies. Here in Washington, the WCF provides the means to finance centralized service activities in supply, mail, forms, copier service, photocomposition, photography, video, film, and design services. In FY 1987 we plan to add telecomunications operations and maintenance, central shipping and receiving, central excess property, and Departmental training programs to those already supported by the WCF.

We are continuing to improve management control and oversight mechanisms to insure the integrity and financial stability of service activities. Two features of this system are: 1) the Interagency Review Board, which serves as a "Board of Directors" in reviewing WCF activities and advises me in my role as "Chief Executive Officer" of the Fund, and 2) the Comptroller, who oversees the Fund and is in a position to recommend to me actions that are in the best interest of overall operations of the WCF. The budget reflects careful review and scrutiny by the Board, the Comptroller, and myself and is in keeping with the overall climate of fiscal restraints.

Mr. Chairman, the Committee has been helpful in the past few years, by amending legislation to allow the inclusion of "Growth Capital" in the Fund. This has allowed the Working Capital Fund to avoid excessive leasing costs by buying capital equipment when it is more economical to do so. We have also embarked upon, with the assistance of Congressional appropriations, a four year capital improvement program. We have just completed our second year of the program, improving our opportunities to avoid excessive lease costs for users of centralized services, and we continue to be grateful for your support. However, we continue to lease equipment that should be purchased, which means that our client agencies are paying rates higher than necessary. Our mission is to provide the most efficient, effective, and economical services possible. Therefore, as the next stage of this planned multi-year effort, the fiscal year 1987 budget request includes $6 million to purchase additional equipment to avoid more expensive leasing costs.

We have intensively reviewed the equipment installed or planned for Working Capital Fund activities and our analysis indicates that these activities would spend $3.0 million in annual lease payments for ADP and telecommunications equipment which could be purchased for about $6.0 million. Total lease payments for this equipment over a three year useful life would be $12.8 million. If the Congress approves our appropriation request, we will be in a position to purchase this equipment and thereby achieve a net cost savings of $3.0 million over the three year period. The cost reductions we expect as a result of these actions will continue a trend begun in FY 1985. Costs avoided in FY 1985 amounted to $2.0 million. When added to expected avoidances of $6.8 million, $3.0 million, and $4.0 million for actions taken in fiscal years 1986-1988, we expect to save the agencies approximately $16 million in excess lease costs.

While this request for capital procurement funding is substantial, it is based on sound management principles. We will, of course, continue to annually evaluate our needs and will hold our Working Capital Fund request to the lowest possible level, while using available resources to obtain maximum possible benefits for our user agencies.

The budget also projects overall operating levels for Working Capital Fund activities. These operating levels are reimbursed by USDA and other government agencies and are based on their demand for Working Capital Fund services. Responsibilities at the National Finance Center now include servicing arrangements to perform payroll, personnel and other services for the Departments of Commerce and Education, and the Merit Systems Protection Board. In providing services to agencies outside of USDA, we can reduce cost shares borne by USDA users of these services by spreading fixed costs over a broader user base. We expect savings in annual processing costs to USDA users of $407,000. We can also help non-USDA clients avoid costs associated with the start-up of such services and annual processing costs. The expected annual savings attributable to "cross servicing" total $1,050,000 for non-USDA users. Savings for both USDA and non-USDA users are in addition to those achieved through purchasing rather that leasing equipment.

The overall operating level for the Working Capital Fund in fiscal year 1987, excluding capital equipment acquisition, is estimated at $109,777,000. This estimate of increased operating requirements is based on the assumption of telecommunications, central shipping and receiving, central excess property, and training functions into the Fund; and the closing of the printing plant at the end of FY 1986. These actions, the expansion of service to non-USDA agencies provided by NFC and the increase in service demand at the Departmental computer centers will result in operating cost increases of $6.2 million over FY 1986 levels.

Mr. Chairman, that concludes my prepared statement. We have provided additional information in our budget justifications and would be glad to provide any further details the Subcommittee may require. We are available to answer any questions you may have.

OFFICE OF THE SECRETARY

Purpose Statement

The Secretary of Agriculture, assisted by the Deputy Secretary, Under Secretaries and Assistant Secretaries, and members of their immediate staffs, directs and coordinates the work of the Department. This includes developing policy, maintaining relationships with agricultural organizations and others in the development of farm programs, and maintaining liaison with the Executive Office of the President and members of Congress on all matters pertaining to agricultural policy.

The Board of Contract Appeals is a reimbursable activity in the Office of the Secretary. It is the authorized representative of the Secretary of Agriculture to make final administrative determinations for the Department of Agriculture in appeals handled under the Secretary's regulations.

The general authority of the Secretary to supervise and control the work of the Department is contained in the Organic Act (7 U.S.C. 2201-2202). The delegation of regulatory functions to the Department employees and authorization of appropriations to carry out these functions in contained in 7 U.S.C. 450c-450g.

The Secretary's Office and the staffs financed from this appropriation are all located in Washington, D.C. As of September 30, 1984, there were 90 permanent full-time and 5 part-time employees.

OFFICE OF THE SECRETARY

Available Funds and Staff-Years

1985 Actual and Estimated 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Direct Appropriation	$5,263,430	83	$5,704,000	86	$5,538,000	86
Obligations Under Other USDA Appropriations:						
Board of Contract Appeals	654,322	9	625,000	9	640,000	9
Grain Storage and Elevator Safety	100,000	1	- -	- -	- -	- -
Forest Service	67,805	1	73,000	1	73,000	1
Agriculture in the Classroom	68,033	- -	110,000	- -	- -	- -
Consumer Advisor	93,160	2	110,000	2	110,000	2
Food and Nutrition Service	76,373	1	69,000	1	69,000	1
Miscellaneous Reimbursements	41,006	- -	- -	- -	7,000	- -
Total, Other USDA Appropriations	1,100,699	14	987,000	13	899,000	13
Total, Office of the Secretary	$6,364,129	97	$6,691,000	99	$6,437,000	99

Full-time Equivalent	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	96	95	95
Non-Ceiling	1	4	4
Total	97	99	99

OFFICE OF THE SECRETARY

Permanent Positions by Grade and Staff-Year Summary
1985 and Estimated 1986 and 1987

Grade	1985		1986		1987	
	Headquarters	Total	Headquarters	Total	Headquarters	Total
Executive Level I	1	- -	1	- -	1	- -
Executive Level II	1	- -	1	- -	1	- -
Executive Level III	2	- -	2	- -	2	- -
Executive Level IV	7	- -	7	- -	7	- -
ES-6	3	- -	2	- -	2	- -
ES-5	3	- -	4	- -	4	- -
ES-4	3	- -	3	- -	2	- -
ES-3	5	- -	6	- -	6	- -
ES-2	1	- -	1	- -	1	- -
ES-1	3	- -	3	- -	4	- -
GS/GM-18...........	1	- -	1	- -	1	- -
GS/GM-17...........	1	- -	1	- -	1	- -
GS/GM-16	4	- -	4	- -	4	- -
GS/GM-15	6	- -	6	- -	6	- -
GS/GM-14	3	- -	3	- -	3	- -
GS-13	1	- -	2	- -	2	- -
GS-12	4	- -	3	- -	4	- -
GS-11	6	- -	6	- -	6	- -
GS-10	3	- -	2	- -	2	- -
GS- 9	11	- -	9	- -	9	- -
GS- 8	7	- -	6	- -	5	- -
GS- 7	5	- -	6	- -	6	- -
GS- 6	1	- -	1	- -	1	- -
Other Graded Positions.	12	- -	12	- -	12	- -
Ungraded Positions.....	2	- -	2	- -	2	- -
Total Permanent Positions	96	- -	94	- -	94	- -
Staff-Years						
Ceiling ....:	96		95		95	- -
Non-ceiling	1	- -	4	- -	4	- -
TOTAL	97	- -	99	- -	99	- -

OFFICE OF THE SECRETARY

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

		1985	1986	1987
Personnel Compensation:				
	Headquarters	$3,610,716	$3,750,000	$3,704,000
	Field	- - - -	- - - -	- - - -
11	Total Personnel Compensation	3,610,716	3,750,000	3,704,000
12	Personnel Benefits	362,009	434,000	429,000
13	Benefits for former personnel	1,475	1,000	- - -
	Total Pers. Comp. & Benefits ..	3,974,200	4,185,000	4,133,000
Other Objects:				
21	Travel	174,255	300,000	226,000
22	Transportation of things	5,136	2,000	3,000
23.2	Rental payments to other.....	25,000	--	19,000
23.3	Communications, utilities and other rent	447,731	467,000	395,000
24	Printing and reproduction ...	200,127	267,000	237,000
25	Other services	286,285	400,000	408,000
26	Supplies and materials	97,981	70,000	100,000
31	Equipment	24,557	13,000	17,000
	Total Other Objects	1,261,072	1,519,000	1,405,000
Total Direct Obligations		5,235,272	5,704,000	5,538,000

Position Data:

	1985	1986	1987
Average Salary, ES positions	$67,344	$67,344	$67,344
Average Salary, GS positions	$34,855	$35,764	$35,764
Average Grade, GS positions	10.95	11.06	11.06

OFFICE OF THE SECRETARY

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Office of the Secretary

For necessary expenses of the Office of the Secretary of Agriculture, inlcuding not to exceed $75,000 for employment under 5 U.S.C. 3109, [$1,750,000] $5,538,000: Provided, that not to exceed $8,000 of this amount shall be available for official reception and representation expenses, not otherwise provided for, as determined by the Secretary.

Office of the Assistant Secretary for Administration

[For necessary expenses of the Office of the Assistant Secretary for Administration to carry out the programs funded in this Act, $484,000.]

Office of the Assistant Secretary for Governmental and Public Affairs

[For necessary expenses of the Office of the Assistant Secretary for Governmental and Public Affairs to carry out the programs funded in this Act, $337,000.]

Office of the Assistant Secretary for Economics

[For necessary expenses of the Office of the Assistant Secretary for Economics to carry out the programs funded in this Act, $418,000.]

Office of the Assistant Secretary for Science and Education

[For necessary salaries and expenses for the Office of the Assistant Secretary for Science and Education to administer the laws enacted by the Congress for the Agricultural Research Service, Cooperative State Research Service, Extension Service, and National Agricultural Library, $371,000.]

Office of the Assistant Secretary for Marketing and Inspection Service

[For necessary salaries and expenses for the Office of the Assistant Secretary for Marketing and Inspection Services to administer programs under the laws enacted by the Congress for the Animal and Plant Health Inspection Service, Food Safety and Inspection Service, Federal Grain Inspection Service, Agricultural Cooperative Service, Agricultural Marketing Service, (including Office of Transportation) and Packers and Stockyards Administration, $347,000.]

Office of the Under Secretary for International Affairs and Commodity Programs

[For necessary salaries and expenses for the Office of the Under Secretary for International Affairs and Commodity Programs to administer the laws enacted by Congress for the Agricultural Stablization and Conservation Service, Office of International Cooperation and Development, Foreign Agriculutral Service, and the Commodity Credit Corporation $502,000.]

Office of the Under Secretary for Small Community and Rural Development

[For necessary salaries and expenses for the Office of the Under Secretary for Small Community and Rural Development to administer programs under the laws enacted by the Congress for the Farmers and Home Adminitration, Rural Electrification Administration, Office of Rural Development Policy, and Federal Crop Insurance Corporation, [$790,000.]

Office of the Assistant Secretary for Natural Resources and Environment

[For necessary salaries and expenses for the Office of the Assistant Secretary for Natural Resources and Environment to administer the laws enacted by the Congress for the Forest Service and the Soil Conservation Service, $386,000.]

Office of the Assistant Secretary for Food and Consumer Services

[For necessary salaries and expenses for the Office of the Assistant Secretary for Food and Consumer Services to administer the laws enacted by the Congress for the Food and Nutrition Information Service, $350,000.]

This change merges amounts appropriated to Under and Assistant Secretaries with amounts appropriated to the Secretary of Agriculture for the operation of the offices within the Office of the Secretary to reestablish a single appropriation for that Office. The fiscal year 1986 Appropriations Act established separate appropriation accounts for the Immediate Office of the Secretary and each Under and Assistant Secretary. This arrangement precludes shifting funds from one office to another. It is possible that changes in workload and personnel would make funding shifts advisable in the future.

The 1987 Budget proposes to reestablish a single account for these activities, but to identify each individual office as a line item within the account. In this manner, shifts of funds would be permissible but would be subject to normal reprogramming procedures. This proposal appears to represent the best balance between the valid right of the Congress to specify the use of funds and the reasonable management flexibility of the Executive Branch.

OFFICE OF THE SECRETARY

Appropriation Act, 1986	$5,735,000
Budget Estimate, 1987	5,538,000
Increase in Appropriation	-197,000

Adjustments in 1986:		
Appropriations Act, 1986	$ 5,735,000	
Less Pro-Rata Reduction, P.L. 99-190	-35,000	
Net Appropriation	5,700,000	
Activities transferred from AMS for Agricultural Labor Affairs a/	+58,000	
Transfer to Departmental Administration and Office of Governmental and Public Affairs	-54,000	
Adjusted Base for 1986 b/		$5,704,000
Budget Estimated 1987		5,538,000
Decrease from Adjusted 1986		- 166,000

a/ Transfer of $58,000 from AMS for a portion of the Agricultural Labor Affairs activities.

b/ A transfer of $2,000 to Departmental Administration and $52,000 to Office of Governmental and Public Affairs to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1986 Estimated	Program Change	1987 Estimated
Immediate Office of the Secretary	$1,723,000	+ 67,000	$1,790,000
Assistant Secretary for Administration	476,000	+ 19,000	495,000
Assistant Secretary for Governmental and Public Affairs	332,000	+ 13,000	345,000
Assistant Secretary for Economics	468,000	+ 17,000	485,000
Assistant Secretary for Science and Education	366,000	+ 14,000	380,000
Assistant Secretary for Marketing and Inspection Services	342,000	+ 13,000	355,000
Under Secretary for International Affairs and Commodity Programs	494,000	+ 19,000	513,000
Under Secretary for Small Community and Rural Development	778,000	-356,000	422,000
Assistant Secretary for Natural Resources	380,000	+ 15,000	395,000
Assistant Secretary for Food and Consumer Services	345,000	+ 13,000	358,000
Total Available	$5,704,000	-166,000	$5,538,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

	1985 Actual		1986 Estimated		Increase	1987 Estimated	
Project	Amount	Staff Years	Amount	Staff Years	or Decrease	Amount	Staff Years
1. Immediate Office of the Secretary....	$2,351,873	27	$1,723,000	30	+$67,000	$1,790,000	30
2. Under/Asst. Secretaries							
Administration..	413,492	6	476,000	6	+19,000	495,000	6
OGPA...........	255,698	6	332,000	6	+13,000	345,000	6
Economics.......	365,989	6	468,000	6	+17,000	485,000	6
SEA.............	318,307	6	366,000	6	+14,000	380,000	6
MIS.............	247,306	6	342,000	6	+13,000	355,000	6
IACP............	423,704	7	494,000	7	+19,000	513,000	7
SCRD............	313,526	7	778,000	7	-356,000	422,000	7
NRE.............	300,569	6	380,000	6	+15,000	395,000	6
FCS.............	244,808	6	345,000	6	+13,000	358,000	6
Unobligated Balances.......	28,158	- -	- -	- -	- -	- -	- -
Total Available or Estimate....	5,263,430	83	5,704,000	86	-166,000(1)	5,538,000	86
Transfer from AMS............	-40,000		-58,000				
Transfer to: DA and OGPA Appropriation..	+81,570		+54,000				
Total Appropriation..	$5,305,000	83	$5,700,000				

EXPLANATION OF PROGRAM

The Office of the Secretary, Deputy Secretary, Under Secretaries, Assistant Secretaries and their immediate staffs provide policy and guidance for the Department and maintain relationships with agricultural organizations and others in the development of farm programs.

JUSTIFICATION OF INCREASES AND DECREASES

(1) A net decrease of $166,000 which consists of a reduction of $3/3,000 in Small Community and Rural Development for contracts that will be discontinued and an increase of $207,000 to provide for increased operating costs in fiscal year 1987.

Office of the Secretary
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS
1985 and Estimated 1986 and 1987

	1985		1986		1987	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Washington, D.C.	$5,235,272	83	$5,704,000	86	$5,538,000	86

OFFICE OF THE SECRETARY

STATUS OF PROGRAM

Under the direction of the Secretary of Agriculture, the Immediate Office of the Secretary exercises broad executive responsibility for the development and implementation of national agricultural policies and the general management of the programs of the Department within the framework of the laws enacted by Congress. Policy and program activities are currently divided among nine Under or Assistant Secretaries, whose responsibilities fall into the following areas: International Affairs and Commodity Programs, Small Community and Rural Development, Economics, Food and Consumer Services, Marketing and Inspection Services, Natural Resources and Environment, Science and Education, Administration, and Governmental and Public Affairs.

The primary role of the Office of the Secretary is to provide over-all policy direction and managerial oversight to the Department's agencies. Secretarial officers continuously evaluate programs to ensure compliance with Department objectives and develop new initiatives to facilitate the disposition of commodity surpluses and inventories. Departmental programs must be well coordinated with the activities of other Departments in matters of domestic and foreign affairs in order to realize their full potential. The Office of the Secretary provides forums for the discussion of agricultural policy and program alternatives, and frequently represents the United States' agricultural interests at national and international meetings on such vital matters as export development and world food problems.

OFFICE OF THE SECRETARY

PASSENGER MOTOR VEHICLES

The FY 1987 Budget Estimates propose no additional or replacement passenger motor vehicles.

As of December 1, 1985, only one Department-owned automobile was operated in the District of Columbia. This car is used primarily for mail pickup and deliveries. Five vehicles are rented on an annual basis for use by the Secretary of Agriculture, the Deputy Secretary, the Under Secretaries, Assistant Secretaries, and other officials of the Department.

Age and mileage data for passenger motor vehicles on hand as of September 30, 1985, are as follows:

Age-Year Model	Number of Vehicles	Percent of Total	Lifetime Mileage (thousands)	Number of Vehicles	Percent of Total
1971 Ford Custom 500	1	100	85-100	1	100

DEPARTMENTAL ADMINISTRATION

Purpose Statement

The Departmental Staff Offices provide staff support to the top policy officials of the Department and overall direction and coordination of the work of USDA's program agencies to ensure the efficient and effective management and operation of the Department.

Activities carried out by Departmental Staff Offices include:

- Overall direction and administration of the Department's budgetary functions including development, presentation, execution control, reporting and adjusting funds and manpower resources; evaluation of program and legislative proposals for program, budget, and related resource implications; and analysis of program resource issues and alternatives and preparation of summaries of pertinent data to aid Departmental policy officials and agency program managers in the decision-making process.

- Departmental leadership, oversight, and policy development in the areas of real and personal property, procurement, contracts, motor vechicles, management improvement, and automated data processing.

- Guidance in and support of the personnel management program of the Department.

- Overall leadership, and coordination for the Department's programs for Equal Opportunity and Civil Rights; implementation and administration of programs under Sections 8 and 15 of the Small Business Act; and direction of the Department's efforts to further the participation of minority colleges and universities in Departmental programs; direction and monitoring of compliance in promoting full and open competition in procurement.

- Departmental leadership, development and evaluation of programs in finance, accounting, Federal assistance, occupational safety and health, travel, productivity improvement, and management improvement; and budget, accounting and fiscal services to the Office of the Secretary and Departmental Staff Offices.

- Departmental leadership, development, oversight and evaluation of the Secretary's Five-Point Management Plan.

- Regulatory hearings and decisions by the Administrative Law Judges who hold rulemaking and adjudicatory hearings and issue initial decisions and orders, and by the Judicial Officer who serves as final deciding officer in regulatory proceedings.

- Development and dissemination of Departmental Information Resources Management (IRM) standards, guidelines, rules, and regulations necessary to implement approved IRM principles, policies, and programs that improve the operational effectiveness of USDA's programs; provision of telecommunications and ADP services to USDA agencies and Staff Offices.

- Development of policies and procedures to minimize and control burdens associated with collection of information by the Department from individuals, businesses, and other private institutions, and State and local governments.

Working Capital Fund Activities. In addition to the activities indicated above, the Department's Staff Offices provide central services to the agencies of the Department, which are currently financed under the Department's Working Capital Fund (7 U.S.C. 2235) and include central accounting, payroll, voucher payments, billings and collections, supply, reproduction and copier services, mail collection and delivery, mailing lists, forms distribution, central shipping and receiving, excess property control, executive correspondence control, computer services, centralized telecommunication services, and training programs. A detailed explanation of these activities is presented in the Working Capital Fund section.

Reimbursable Activities. Includes EEO complaint investigation services, the Administrative Law Judges' travel and printing, as well as miscellaneous reimbursements for service.

Geographic Location. The majority of the staff offices are located in Washington, D.C. Central services financed through the Working Capital Fund are provided by the National Finance Center located in New Orleans and by the Department's computer centers located in Washington, D.C., Kansas City, Missouri and Fort Collins, Colorado, and by other administrative service units located in the Washington Metropolitan area.

As of September 30, 1985, there were 1,847 full-time employees and 227 part-time employees in the staff offices included under Departmental Administration, including 623 permanent full-time and 64 part-time employees located in Washington, D.C.

DEPARTMENTAL ADMINISTRATION

Available Funds and Staff-Years

1985 Actual and Estimated, 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Direct Obligations	$21,778,096	404	$22,075,000	423	$21,920,000	436
Obligations Under other USDA Appropriations:						
EEO Complaints Appeals and Investigations ...	893,485	- -	1,000,000	- -	1,000,000	- -
Advocacy & Enterprise..	28,077					
Office of International Cooperation & Development	53,238	- -	- -	- -	- -	- -
Information Technology Center...............	150,000	- -	- -	- -	- -	- -
Miscellaneous Detail...	27,304	- -	42,000	- -	40,000	- -
Office of Administrative Law Judges	65,480	- -	80,000	- -	90,000	- -
Office of Management Reform	540,365	- -	130,000	- -	- -	- -
Miscellaneous Reimbursements	72,904	- -	30,000	- -	30,000	- -
Subtotal	1,830,853	- -	1,282,000	- -	1,160,000	- -
Management Support Services provided to WCF Activities	3,647,000	71	3,282,000	88	3,342,000	82
Total, Reimbursements	5,477,853	71	4,564,000	88	4,502,000	82
Working Capital Fund:						
Supply and Other Central Services	7,697,000	97	7,917,000	98	8,212,000	95
Reproduction Services .	3,441,000	53	3,405,000	38	2,471,000	28
National Finance Center	44,105,000	1,202	45,310,000	1,145	48,940,000	1,133
ADP Services	42,201,000	238	47,443,000	231	49,015,000	222
Purchase of Equipment .	9,088,000	- -	12,662,000	- -	14,708,000	- -
Subtotal, Working Capital Fund	106,532,000	1,590	116,737,000	1,512	123,346,000	1,478
TOTAL, Other USDA Appropriations	112,009,853	1,661	121,301,000	1,600	127,848,000	1,560
TOTAL, Departmental Administration	133,787,949	2,065	143,376,000	2,023	149,768,000	1,996

Full-time Equivalent Staff-Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	1,985	1,967	1,899
Non-Ceiling	80	56	97
Total	2,065	2,023	1,996

DEPARTMENTAL ADMINISTRATION

Permanent Positions by Grade and Staff-Year Summary
1985 and Estimated 1986 and 1987

	1985			1986			1987		
GRADE	HEADQUARTERS	FIELD	TOTAL	HEADQUARTERS	FIELD	TOTAL	HEADQUARTERS	FIELD	TOTAL
ES-6	2	- -	2	2	- -	2	2	- -	2
ES-5	5	- -	5	7	- -	7	7	- -	7
ES-4	9	3	12	7	4	11	7	4	11
ES-3	2	- -	2	2	- -	2	2	- -	2
ES-2	2	- -	2	0	- -	0	0	- -	0
ES-1				1	- -	1	1		1
GS/GM-17	1	- -	1	1	- -	1	1	- -	1
GS/GM-16	5	- -	5	5	- -	5	5	- -	5
GS/GM-15	31	9	40	28	10	38	28	10	38
GS/GM-14	81	33	114	79	35	114	79	35	114
GS/GM-13............	139	93	232	136	99	235	137	99	236
GS-12	62	161	223	60	168	228	60	167	227
GS-11	27	118	145	24	113	137	23	113	136
GS-10	1	5	6	1	6	7	1	6	7
GS- 9	41	71	112	36	74	110	36	71	107
GS- 8	15	41	56	15	40	55	15	40	55
GS- 7	64	120	184	65	118	183	63	107	170
GS- 6	34	91	125	35	89	124	36	89	125
GS- 5	41	276	317	39	266	305	37	259	296
GS- 4	49	187	236	47	188	235	47	180	227
GS- 3	34	108	142	26	108	134	27	102	129
GS- 2	1	1	2	1	1	2	1	0	1
Other Graded Positions	46	46	92	38	36	76	28	46	74
Ungraded Positions ...	- -	19	19	- -	19	19	- -	25	25
Total Permanent Positions	692	1,382	2,074	655	1,374	2,029	643	1,353	1,996
Staff-Years:									
Ceiling	538	1,447	1,985	652	1,315	1,967	622	1,277	1,899
Non-ceiling	6	74	80	5	51	56	6	91	97
TOTAL	544	1,521	2,065	657	1,366	2,023	628	1,368	1,996

DEPARTMENTAL ADMINISTRATION

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

	1985	1986	1987
Personnel Compensation:			
Headquarters	$15,201,989	15,526,000	15,753,000
Field	- -	- -	- -
11 Total personnel compensation	15,201,989	15,526,000	15,753,000
12 Personnel benefits	1,661,595	1,708,000	1,755,000
13 Benefits for former personnel	48,682	76,000	39,000
Total Personnel Comp. and Benefits	16,912,266	17,310,000	17,547,000
Other Objects:			
21 Travel	257,821	280,000	262,000
22 Transportation of things ...	10,777	14,000	9,000
23.2 Communications, utilities and other rent	790,254	1,180,000	1,154,000
24 Printing and reproduction ..	303,381	402,000	321,000
25 Other services	1,688,139	2,141,000	2,076,000
26 Supplies and materials	485,604	379,000	283,000
31 Equipment	731,326	299,000	198,000
32 Land and Structures.........	77,463	- -	- -
41 Grant & Subsidies and Contributions.............	70,000	70,000	70,000
Total other objects	4,414,765	4,765,000	4,373,000
Total direct obligations	21,327,031	22,075,000	21,920,000

Position Data:

	1985	1986	1987
Average Salary, ES positions	$68,760	$69,792	$70,839
Average Salary, GM/GS positions	$29,879	$33,336	$33,830
Average Grade, GM/GS positions	8.3	8.3	8.4

DEPARTMENTAL ADMINISTRATION

The estimates include appropriation language for this item as follows: (new language in underscored; deleted matter enclosed in brackets):

Departmental Administration

For Budget and Program Analysis, [$3,796,000;] $3,732,000; for Personnel,
Finance and Managment, Operations, Information Resources Management, [Equal
opportunity, Small and Disadvantaged Business Utilization,]
1 Advocacy and Enterprise, and Administrative Law Judges and Judicial Officer,
[$15,334,000;] 18,188,000; making a total of [$19,130,000] $21,920,000 for
Departmental Administration to provide for necessary expenses for management
support services to offices of the Department of Agriculture and for general
2 administration and emergency preparedness of the Department of Agriculture,
repairs and alterations, and other miscellaneous supplies and expenses not
otherwise provided for and necessary for the practical and efficient work of
the Department of Agriculture, of which not to exceed $10,000 is for
employment under 5 U.S.C. 3109: Provided, That this appropriation shall be
reimbursed from applicable appropriations in this Act for travel expenses
incident to the holding of hearings as required by 5 U.S.C. 551-558.

The first change is necessary due to combining the Offices of Equal Opportunity and Small and Disadvantaged Business Utilization into the Office of Advocacy and Enterprise.

The second change is due to the transfer of Emergency Preparedness activities fron the Office of Governmental and Public Affairs to Departmental Administration.

DEPARTMENTAL ADMINISTRATION

Appropriation Act, 1986	$19,130,000
Budget Estimate, 1987	21,920,000
Increase in Appropriation	+2,790,000

Adjustments in 1986:		
Appropriation Act, 1986	$19,130,000	
Less Pro-Rata Reduction, P.L. 99-190	-115,000	
Net Appropriations	19,015,000	
Activities transferred from Office of Grants and Program Systems a/......................	+159,000	
Transfer to OGPA for Reimbursable Activities b/.....	-93,000	
Transfer from USDA agencies for Reimbursable Activities c/	+2,994,000	
Adjusted Base for 1986		22,075,000
Budget Estimate, 1987		21,920,000
Decrease from adjusted 1986		-155,000

a/ Pursuant to Secretary Memoranda 1020-20 dated March 15, 1985 establishing an Office of Advocacy and Enterprise, combining the Offices of Equal Opportunity and Small and Disadvantaged Business Utilization and transferring functions related to the Minority Research and Teaching Program from the Office of Grants and Program Systems. Actual transfer of funds of $159,000 was made in FY 1986. On a comparable basis the annual cost of the activities is $159,000 for FY 1987.

b/ Transfer of $93,000 from Departmental Administration to Office of Governmental and Public Affairs to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

c/ Transfer of $2,994,000 from USDA agencies to Departmental Administration to fund activities formerly financed on a reimbursable basis as a direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES

(On basis of adjusted appropriation)

Item of Change	1986 Estimated	Program Changes	1987 Estimated
Budget and Program Analysis	$3,773,000	-41,000	$3,732,000
Personnel	4,945,000	-65,000	4,880,000
Finance and Management	3,527,000	-90,000	3,437,000
Operations	2,466,000	-85,000	2,381,000
Information Resources Management	4,093,000	-315,000	3,778,000
Advocacy and Enterprise....	2,432,000	+394,000	2,826,000
Administrative Law Judges & Judicial Officer	839,000	+47,000	886,000
Total Available	22,075,000	-155,000	21,920,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

Project	1985 Actual		1986 Estimated		Increase or Decrease	1987 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
1. Budget and Program Analysis ..	$3,607,501	76	$3,773,000	81	-$41,000	$3,732,000	80
2. Departmental Administrative Management ..							
Staff Offices:							
a. Personnel ..	4,534,071	94	4,945,000	94	-65,000	4,880,000	103
b. Finance and Management..	3,215,856	55	3,527,000	65	-90,000	3,437,000	65
c. Operations	2,524,904	62	2,466,000	57	-85,000	2,381,000	61
d. Information Resources Management..	4,100,588	50	4,093,000	52	-315,000	3,778,000	52
e. Advocacy and Enterprise.	2,574,490	52	2,432,000	55	+394,000	2,826,000	56
f. Administrative Law Judges & Judicial Officer	769,620	15	839,000	19	+47,000	886,000	19
Total, Admin. Mgmt.	17,719,530	328	18,302,000	342	-114,000	18,188,000	356
Unobligated Balance	+451,065	--	- -	--	- -	- -	- -
Total Available or estimate	21,778,096	404	22,075,000	423	-155,000	21,920,000	436
Transfer to Governmental and Public Affairs .	+93,000	--	+93,000				
Transfer from Office of Grants Program Systems..	-159,000	--	-159,000	--			
Shift from Reimbursable Activities............	-2,668,096	-36	-2,994,000	-40			
Total, Appropriation	19,044,000	368	19,015,000	383			

EXPLANATION OF PROGRAM

This appropriation provides for the following activities:

Budget and Program Analysis - This activity provides direction and administration of the Department's budgetary functions including development, presentation, execution, control, reporting and adjusting fund and staff-year resources; evaluates program and legislative proposals for program, budget and related resources implications; analyzes program and resource issues and alternatives, and prepares summaries of pertinent data to aid Departmental policy officials and agency program managers in the decision-making process; provides Department-wide coordination for and participation in the presentation of budget related matters to the Committees of the Congress, the press, and interested public. Provides Department-wide coordination of the preparation and processing of legislative programs and reports; and develops and maintains a mission-oriented program structure which defines Department missions, goals and objectives for the purpose of establishing long and short range program planning and to aid the Secretary and other Departmental agency officials in making management decisions regarding the Department's programs and resources.

Personnel - This activity provides general liaison, direction, leadership coordination and monitoring of the personnel management program in the Department. Departmental policies and procedures relating to all personnel functions are promulgated, and operational services are provided to the Office of the Secretary, Office of the Inspector General, Office of the General Counsel, Office of Governmental and Public Affairs, Office of Budget and Program Analysis, and the Departmental Administrative Staff Offices.

Finance and Management - This activity provides Departmental leadership, development and evaluation of programs in finance, accounting, Federal occupational safety and health, productivity and management improvements. The Director serves as the Department's finance officer, management improvement officer and comptroller of the Working Capital Fund. Finance and Management also provides budget, accounting and fiscal services for the Departmental Administrative Staff Offices, Offices of the General Counsel, Office of Governmental and Public Affairs, Office of Budget and Program Analysis and the Office of the Secretary.

Operations - This activity provides staff and support services to the USDA Agencies in the managment of real and personal property, procurement, contracts, supplies, motor vehicles and internal energy conservation. Under an agreement with GSA, it operates and provides maintenance services to the Washington, D.C. building complex.

Information Resources Management - This activity designs, implements and revises systems, processes, work methods and techniques to improve the management of information resources and the operational effectiveness of USDA. The Director serves as the Department's clearance officer for statistical reporting and information collection. This activity also provides telecommunications and ADP services to USDA agencies and staff offices including the Washington Computer Center, Fort Collins Computer Center, and Kansas City Computer Center.

Advocacy and Enterprise - This activity provides leadership, and coordination for the Department's programs for Equal Opportunity and Civil Rights; implementation and administration of sections 8 and 15 of the Small Business Act; and direction of Departmental efforts to further the participation of minority colleges and universities in USDA programs; direction and monitoring of compliance in promoting full and open competition in procurement.

Administrative Law Judges/Judicial Officer - The Administrative Law Judges hold hearings in connection with the prescribing of new regulations and orders and on disciplinary complaints filed by the Department or on some petitions filed by private parties asking relief from actions of the Department. Final administrative decisions in regulatory proceedings are rendered by the Judicial Officer.

JUSTIFICATION OF INCREASES AND DECREASES

(1) A net decrease of $41,000 in the Office of Budget and Program Analysis for management savings to be accomplished by realignment of workloads and staff resources, as well as the strict monitoring of nonpersonnel expenditures.

(2) A net decrease of $114,000 for Departmental Administration Staff Offices consisting of:

(a) A decrease of $555,000 for Management Savings and productivity increases across the Offices in FY 1987.

Need for Change. The FY 1986 base is increased by the transfer to the Office of Personnel and to the Office of Finance and Management of $2,994,000 of appropriated funds for activities formerly reimbursed by other USDA agencies' appropriations. These activities include SES Candidate Development, EEO Investigations and Appeals administration, Ethics in Government, Central Job Information, Employment Complaint Investigations, Safety and Health Services and Cost Management Services. It is anticipated that the consolidation of these resources, together with realignment of workloads, increased use of office automation and ADP, and good management practices, will result in management savings and increased productivity with fewer staff resources.

Nature of Change. A decrease of $555,000 across various catagories of expenditure in the affected Staff Offices.

(b) An increase of $394,000 for the Office of Advocacy and Enterprise to strengthen Equal Opportunity and Civil Rights administrative management, provide special attention to competition advocacy and ensure full participation of minority universities and colleges in USDA programs.

Need for Change. Secretary's Memorandum 1020-20 of March 15, 1985, determined that more attention, coordination and special emphasis needed to be placed on USDA's Equal Opportunity, Civil Rights, and Small and Minority Business procurement efforts and on the participation of minority colleges and universities in Departmental programs. These activities were dispersed among several offices of the Department. Secretary's Memorandum 1020-20 consolidated these activities into a central Office of Advocacy and Enterprise. This request provides additional resources to provide that special emphasis and attention.

Nature of Change. An increase of $394,000 is associated with one position and additional resources to begin activities competition Advocacy, increase training of USDA agency procurement official in Small Business and Minority procurement procedures, assist USDA agencies in complying with Equal Opportunity requirements, and conduct a National Civil Rights Conference for USDA personnel to develop a five year agenda to streamline program management of USDA Civil Rights program administration.

(c) An increase of $47,000 for the Administrative Law Judge to cover increased operating costs and for ADP equipment maintenance.

Need for Change. This is a small office that must retain resources to cover normal operation cost increases, e.g., increases in telephone costs, supplies and materials; plus the office now has equipment maintenance contracts for ADP equipment obtained in prior years to automate its operations and help keep pace with its workload.

Nature of Change. An increase of $22,000 to maintain ADP equipment acquired in prior years and $25,000 for operating cost increases in nonpersonnel related categories of expenditure.

DEPARTMENTAL ADMINISTRATION
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS
1985 and Estimated 1986 and 1987

	1985		1986		1987	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Washington, D.C.	$21,327,031	404	22,075,000	423	21,920,000	436

DEPARTMENTAL ADMINISTRATION

STATUS OF PROGRAM

Departmental Administration is composed of: the six administrative management Staff Offices reporting to the Assistant Secretary for Administration; the Office of Administrative Law Judges/Judicial Officer, a quasi-judicial activity which autonomously adjudicates cases; and the Office of Budget and Program Analysis, which reports to the Deputy Secretary. The Board of Contract Appeals, a quasi-judicial agency reporting to the Assistant Secretary for Administration is a reimbursable activity of the Office of the Secretary.

The Staff Offices provide staff support to policy officials and provide administrative policy guidance to program Agencies to ensure the efficient and effective management of the Department. These offices coordinate the Department's management improvement programs and provide a variety of services such as accounting, fiscal and financial services; information resources management; automated data processing administration; procurement and contracts; supply and transportation management; management of real and personal property; personnel management; safety and health activities; motor vehicle management; and direction of equal opportunity, civil rights, and competition advocacy activities.

The Office of Budget and Program Analysis develops and directs systems for the effective formulation and presentation of the Department's program and budget estimates; administers systems for the management and control of funds; provides policy, program, and budgetary analysis of USDA proposals; and provides staff assistance to USDA policy officials and Agency program managers in meeting their responsibilities for the development and review of regulations and legislative reports.

OFFICE OF BUDGET AND PROGRAM ANALYSIS

The Office of Budget and Program Analysis provides ongoing leadership and direction in budgetary matters, internal resource management, and the performance of staff work such as:

-- development and presentation of the Department's budget in cooperation with the agencies, the Office of Management and Budget, and Congressional Appropriations and Budget Committees;

-- management and control of funds to assure that programs are carried out in accordance with the intent of Congress and Executive Branch requirements;

-- coordination of the Department's legislative program and legislative reporting activities;

-- coordination and monitoring of regulatory decision systems and publication of the USDA Decision Calendar;

-- ongoing review and analyses of budget and program proposals and preparation of staff papers to assist policy officials in formulating and implementing USDA objectives and programs.

OFFICE OF PERSONNEL

The Office of Personnel establishes policy and procedures for personnel management programs throughout the Department in activities such as position classification and management; organization reviews; leave, salary and wage administration; employment and recruitment; personnel and records security; emergency preparedness systems; employee conduct and discipline; incentive awards; performance evaluation; employee development; and labor-management relations. The Office also provides operational services to the Office of the Secretary, Departmental Administration Staff Offices, and other Agencies within the Department.

Current Activities:

1. Studies have been conducted to determine personnel management functions that could be automated, computerized, or simplified to facilitate personnel processing and records management.

2. Automated Personnel System. System specifications for portions of an automated personnel system are being implemented to facilitate the transmittal of personnel documents from all USDA agencies to the National Finance Center. Specifications for the personnel action processing package have been completed and forwarded to the NFC for action. Groups are now working on the Position Management Package specifications and user manual. Information processed and stored in this fashion would be accessible for immediate response to requests from the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM).

3. Advisory Committee Accountability. The Office of Personnel plans to automate the Department's Advisory Committee records. Automation will facilitate accountability for Advisory Committee expenditures.

4. Performance Management. The Office is working with OPM to implement performance management regulations which promote a single, simplified system within USDA.

5. Worker's Compensation. The Office continues to work with agency personnel offices on ways to reduce the levels of unemployment and worker's compensation that are currently being charged to the Department. As feasible, injured employees will return to duty and be trained for positions they are able to perform.

6. Retirement. The Office is continuing to develop a pay system for employees to cover the time between the effective date of retirement and the receipt of the first annuity check.

Selected Examples of Recent Progress:

Classification Maintenance Reviews. Revised Departmental regulations on reviews of this type. This revision relaxes requirements on maintenance review programs and lessens the reporting burden currently placed on personnel offices. Previous regulations for position classification documentation and review required the agencies to review a specified number of positions per year as determined by formula, in addition to those reviewed as a part of the normal hiring process.

Reorganization Activities. Provided guidance on the Forest Service and Bureau of Land Management merger. Reviewed and recommended approval of reorganization packages for several of the Department's agencies and staff offices.

Classification Guide. Developed and published a USDA Classification Guide for Space Utilization Positions.

EEO Grievances and Complaints Processing. The backlog of grievances and pending investigations in this area has been eliminated. Removing this backlog will enable the Department to process grievances and complaints in a more timely manner.

Personnel Management Information System. Subsystems within this system have been developed to automate position management and personnel action processing functions.

Quality of Life -- Incentive Awards. Departmental regulations covering the employee award system were revised and simplified. The revised chapter eliminates unnecessary controls, removes barriers, and delegates authority to agencies to administer their incentive awards programs.

Idea Week. A program encouraging USDA employees to submit their ideas, suggestions, and recommendations via phone, electronic mail, and regular mail was held. Innovative ideas and suggestions were received and, as feasible, implemented. Programs of this type enable "Headquarters" to be aware of employee concerns.

Performance Appraisal -- Delta Team. Used a unique team, made up of a cross section of SES and GS/GM employees, in the revision of a non-SES performance appraisal plan to encourage line as well as management involvement in personnel management initiatives.

Presidential Appointee Orientation. Developed and conducted USDA orientation sessions for Presidential Appointees.

OFFICE OF FINANCE AND MANAGEMENT

The Office of Finance and Management (OFM) provides Departmental leadership, development and evaluation of programs in finance, accounting, Federal assistance, occupational safety and health, and productivity and management improvement. OFM manages the USDA Working Capital Fund, and the Director of OFM serves as the Comptroller of the Fund. OFM also provides budget, accounting, and fiscal services for the Office of the Secretary and Departmental Staff Offices.

Current Activities:

1. Cash and Debt Management. Increased attention is being focused on cash and debt management. Cash management is the acceleration of receipts, the timely disbursement of payments and the investment of any temporary excess cash balances. Debt management involves the proper accounting for receivables and prompt, aggressive collection action.

2. Financial Information System. A Department-wide financial information system is being developed and implemented to provide policymakers with complete, accurate, consistent, and timely financial data and information to manage operations efficiently and effectively. Demands to fund programs and to provide for new investments require accurate financial information for making sound resource allocation decisions. Federal managers must know what each program and service costs to control operating costs.

3. Cost Management. Through the Cost Management Program OFM is coordinating a contract to improve unemployment compensation management services to USDA Agencies. This contract will enable USDA and other Federal Agencies to procure the services they need to reduce unemployment compensation costs and improve agency management of such costs.

4. Travel Management. Travel and related costs are being managed by expanding the Government Transportation System to other travel agents, increasing dollar volume of credit (Diners Club) cards, and reducing the number and the amount of travel advances. Plans include assisting GSA in obtaining flat-rate per diem approval, expanding use of travelers checks to field offices, testing a system to eliminate separate travel checks, and implementing the travel agency concept nationwide.

Selected Examples of Recent Progress:

Debt Management. Debts owed to USDA as of September 30, 1985 totaled $136 billion, of which $9.2 billion was delinquent. USDA has expanded the use of credit bureaus, contractors to collect debts, collection by administrative and salary offsets, IRS collection tools, and increased the interest rate on delinquent debts.

Cash Management. Several cash management improvements have been made including electronic transfer of funds, expeditious deposit of receipts, and reduction of interest payments. Over $25 million in interest payments have been avoided at the Treasury through actions of USDA. Payments are scheduled to be disbursed no earlier than the due date. Speeding up the collection of receipts, FCIC and CCC implemented lock boxes to eliminate mail delay and the FmHA Concentration Banking System became fully operational in May 1985. FmHA, REA, and CCC have implemented electronic fund transfer systems for collections and disbursements.

USDA-Wide Financial Information System. Progress is continuing on the USDA-wide Financial Information System containing a financial data base, electronic reporting, and decision support capability for users to make sound resource allocation decisions and to control the cost of operations.

Travel Program. Travel agents are providing the full-range of reservation services to over 60 percent of the Department's common carrier ticket purchasers. As of September 1985, some 35,000 Departmental employees have received and are using individual Diner Club charge cards for official travel expenses. The Office of Operations imprest fund currently issues an average of $20,000 in travelers checks each week as travel advances in lieu of cash and Government checks. Travel advances have been reduced over 25 percent in the last twelve months.

Cost Management Program. Completed implementation of the Departmental program to better manage and control costs to USDA agencies for services provided by entities outside of USDA. These services include GSA space, telecommunications services, worker's compensation, unemployment compensation, and USPS mail. Specifically undertook the following:

1. Implemented an agreement between the Department of Agriculture and the Department of Labor to establish a USDA program to rehabilitate and rehire employees receiving worker's compensation.

2. Initiated an implementation plan to automate billing procedures for long distance telephone services with representations of AT&T Communications, GTE Sprint, and MCI.

3. Initiated a pilot program with FSIS to develop an automated inventory, validation, and cost projection system to enhance USDA's management of GSA-owned and leased space.

OFFICE OF OPERATIONS

The Office of Operations (OO) provides Departmental support services, policy, oversight, and guidance for the management of real and personal property, procurement, contracts, transportation, supply, motor vehicles, and internal energy conservation. Certain centralized administrative services are also provided in Washington, D.C., including headquarters facilities management; central mail processing; distribution of forms and office supplies; operation of central reproduction and copying services; central shipping and receiving; the receipt, rehabilitation and distribution of excess equipment and furniture; and administrative support to the Office of the Secretary.

Current Activities:

1. Implementing the Department-wide Agriculture Contract Automation System (AGCAS).
2. Making recommendations on expanding the FAST system Department-wide and on what agency should manage the system. OO will retain an oversight and policy role.
3. Implementing recommendations of OFPP Task Force 6 Report on Procurement Reform. These include establishing a procurement career management board and a contracting officer warrant system, developing qualification standards, and designing training.
4. Continuing effort on the Real Property Management initiatives under Executive Order 12512. These include GSA's delegation of leasing authority program, technical and management reviews of agency leasing programs, and reducing the average utilization rate for GSA and USDA owned or leased space to 135 sq. ft. per person by 1990.
5. Working with the Motor Vehicle Review Team to complete the report and action plan scheduled for completion in FY 1986.
6. Converting USDA agencies to the Personal Property Management Information System (PMIS/PROP). OO plans to have all agencies on line by the end of FY 1986. The emphasis of this system is on cooperative processing capability.
7. Establishing a nationwide automated excess property system including a feasibility study of tying into the GSA and DOD disposal systems.

Selected Examples of Recent Progress:

The Centralized Excess Property Operation (CEPO). In FY 1985, 14,671 pieces of furniture and equipment were handled by CEPO for USDA agencies in the Washington, D.C. metropolitan area at a cost approximately $583,500 below what would have been expended by USDA agencies in the absence of CEPO. During the year CEPO operations were moved from the sub-basement of the South Building to a warehouse at 47 L Street, Southeast, resulting in a more effective operation.

Agriculture Automated Contract Generation System (AGCAS). In cooperation with the Environmental Protection Agency (EPA), the Office has successfully completed the pilot test for the Department-wide automated contract generation system. When operational, this system will virtually eliminate the manual preparation of contract solicitation documents, minimize the paperwork burden by reducing the size of the contract documents, and reduce solicitation preparation time from approximately 40 hours to 1 hour. The value of the time saved in USDA agencies when this system becomes fully operational will be approximately $3 million per year.

Major Automated Data Processing (ADP) Acquisitions Completed. Completed a major ADP systems combined acquisition for the Farmers Home Administration and the Soil Conservation Service. This contract, which is estimated to cost $233 million, will provide state-of-the-art ADP equipment for automating these agencies over the next ten years.

Completed ADP system upgrade acquisitions for all Department computer centers. Our negotiations resulted in a competitive purchase at prices 30 to 60 percent below the current General Services Administration ADP schedule contract prices and provided major cost avoidances to users of the computer centers.

Automated FEDSTRIP Ordering System (FAST) Tested. Successfully completed an expanded test of the Animal and Plant Health Inspection Service automated FEDSTRIP ordering system. Recommendations for the Department-wide adoption of this system are currently under consideration. Adoption of this system is expected to result in a paperless FEDSTRIP ordering system for the Department with virtually all functions automated, including electronic document transmission and automated payments.

Blanket Purchase Agreements. Negotiated Blanket Purchase Agreements (BPA's) with 35 office equipment and supply vendors that enable the Departmental agencies to obtain maximum price discounts for small quantity orders against GSA Federal Supply Schedule contracts. Annual cost avoidances to agencies are projected at $550,000 under these BPA's based on volume pricing discounts.

Procurement Management Reviews. Conducted reviews of 8 major procurement offices in FY 1985. These reviews resulted in major improvements in the efficiency and effectiveness of Departmental procurement operations. Especially significant were the reviews in the Farmers Home Administration that resulted in recommendations for increased emphasis on the procurement management function including increased staffing and appropriate grade levels for procurement personnel and shifting some workload responsibilities to offices that have the necessary training and experience in the area of procurement.

Federal Property Utilization Actions. Conducted surveys of 21 facilities with holding agencies to determine if they were needed by the Department. More than 37,000 acres were surveyed, with 301 acres being identified for disposal. In addition, provided oversight of agency surveys of 482 acres at 48 sites. Executive Order 12512 requires a five-year cycle of survey of all owned properties. The Department's FY 1986 program will be accelerated from the FY 1985 level to meet this standard. Seventy-four sites will be surveyed in FY 1986, 28 of which will involve Departmental participation.

OFFICE OF INFORMATION RESOURCES MANAGEMENT

The Office of Information Resources Management develops and recommends Departmental information resources management policies and designs systems to improve the management of information resources and operational effectiveness of the Department. The Office also provides telecommunications and data processing services, including the operation of computer centers in Washington, D.C., Fort Collins, CO., and Kansas City, MO.

Current Activities:

1. Management Plan Initiatives. Implementation of Initiative II (Information Resources Management) and III (Cooperative Processing and Program Support) of the USDA Management Plan, January, 1986.

   Initiative II deals with the management of information as a valuable resource including the acquisition, processing, communication, and retention of that information. The thrust of this initiative is improved program delivery through: 1) better management and utilization of information and information technology; 2) promoting commitment on the part of agency administrators and managers; and 3) Department-wide information sharing.

   Initiative III emphasizes improved field operations and responsiveness, efforts to consolidate administrative support, and the maintenance of adequate administrative services and program delivery. It includes upgrading and streamlining administrative systems so that: 1) centralized systems can be used for cost-effective processing of common administrative actions and providing information for central data bases; 2) unique agency processes and information needs can be better served by agency computing facilities; and 3) opportunities for the sharing of resources can be identified and developed into efficient changes.

2. Field Office Automation. Tracking the acquisition and implementation of major field office automation projects in USDA agencies including: the Forest Service, Farmers Home Administratior, Soil Conservation Service, Agriculture Conservation and Stabilization Service, and the Office of the Inspector General. This process includes studying the cost/benefit relationship and attempting to correlate or coordinate common usage at colocated facilities. Departmental electronic mail use and facilities are to be improved as well.

3. Computer Center Planning. Maintaining the integrated Departmental planning process for all Departmental computer operations. In FY 1985 the first integrated long-range information management plan for the Departmental Computer Centers, including the National Finance Center at New Orleans and the Office of the Secretary's Service Center, was issued. This annual multi-faceted plan, covering a rolling five year time period (the initial time period was 1986-1990), will be updated and revised to provide a guide for decision-making in line with the current environment. Its theme of compatibility, connectivity, cooperation, and cost-consciousness will be retained.

4. Telecommunications. Departmental actions to strengthen telecommunications resource management and planning continue. A USDA Telecommunications Handbook to serve as a guideline to USDA agencies in evaluating and acquiring telecommunications systems was recently published.

   Installation of a local area network (LAN) is currently underway to provide cost effective inter- and intra-agency data communications in the Washington, D.C. building complex, and to support video applications.

   Operating a centralized telecommunications servicing office (TSO), established as a result of the AT&T divestiture, to provide effective management, administration, and logistic support to maintain USDA's metropolitan Washington, D.C. area telephone system. Faster service, faster problem resolution, and a central inventory are some of the TSO's many benefits.

   Operating the Departmental Data Communication Network (DEPNET) service which expects continued growth in usage (rivaling last years nearly 100% growth) as agencies implement distributed processing.

5. Electronic Data Dissemination. Responding to the public demand for electronic dissemination of USDA information, USDA has entered into a new activity where previously published documents are made electronically available to the public through the Electronic Dissemination (EDI) System. Six USDA agencies currently send selected reports electronically through the EDI system. This system has been in operation since July 1985.

Selected Examples of Recent Progress:

IRM Strategic Framework. Development of a strategic framework for the information resources management in the USDA.

DEPNET Contract. Renegotiation of the Departmentwide Data Communications Network (DEPNET) contract, eliminating the need for unique interfaces on each USDA agency network, expansion of DEPNET to include the Washington Area Telephone System (WATS) and Leased Channel Management, and Mobile Field and Local Connection (MFLC) Service.

FLIPS Integration. Integration of the Forest Service's new Forest Level Information Processing System (FLIPS) into DEPNET.

Computer Centers Long-Range Plan. Publication, in cooperation with the Office of Finance and Management (OFM), of the first Departmental Computer Center (DCC) Integrated Long-Range IRM Plan to cover the three OIRM DCC's, the National Finance Center, and the Office of the Secretary Service Center.

IRM Reviews. Development of a new IRM Review Program, incorporating USDA agency self-reviews as part of the review process.

Field Office Automation. Award of a Department-wide microcomputer contract primarily for field offices of the Farmers Home Administration and Soil Conservation Service, but also serving as a requirements contract for all USDA agencies.

Secure Telephone System. Installation of secure voice systems for key Departmental officials.

OFFICE OF ADVOCACY AND ENTERPRISE

The Office of Advocacy and Enterprise (OAE) -- a consolidation of the former Office of Equal Opportunity (OEO), the Office of Small and Disadvantaged Business Utilization (OSDBU), Minority Research and Teaching Programs (MRTP), and the newly created function of competition advocacy -- provides overall policy and program leadership, coordination, and direction for the Department's civil rights and equal employment opportunity programs; plannning for and coordination of the participation of minority colleges and universities in Departmental programs; oversight of all procurement activities to assure maximum participation of small and disadvantaged business in the procurement process; and direction and monitoring of agency compliance in promoting full and open competition in the Department's contracting process.

Current Activities

1. Automation of Affirmative Action Plan (AAP) and Federal Equal Opportunity Recruitment Program (FEORP) Information. In conjunction with the Office of Personnel (OP) and the National Finance Center (NFC), and in collaboration with USDA agency civil rights programs, AAP and FEORP information is being made available on a current year basis. A Department-wide automated system reduces the amount of time required to collect and tabulate information and meet AAP and FEORP requirements in a timely manner.

2. Complaints Processing Pilot Projects. Equal Oportunity (EO) staff has initiated pilot projects with the Farmers Home Administration (FmHA) and the Food and Nutrition Service (FNS) designed to respond to complaints in a more timely and effective manner. Emphasis has been placed on automated tracking of complaint status within established timeframes with technical assistance, policy oversight, and guidance provided by the EO staff.

3. USDA Civil Rights Council. OAE has established a Departmental Civil Rights Council as the successor to a task force of USDA program directors involved in the development of short and long range program goals and objectives. The Council is developing plans for a National Civil Rights Conference.

4. Policy and Regulations. Departmental policy and regulations under Title VI and Title VII of the Civil Rights Act are being revised, coordinated, and published.

5. Procurement Guide. A comprehensive guide of projected USDA procurement by specific category is being developed by Small and Disadvantaged Business Utilization (SDBU) staff in order to improve the detection and targeting process for identifying potential procurement opportunities.

6. Other Small and Disadvantaged Business Utilization Initiatives. Other SDBU staff initiatives include the provision of assistance and support to the National White House Conference on Small Business; development of a computerized listing of all small, minority, and women owned firms currently on file; and increasing minority participation in the food commodity program.

7. Utilization of Campuses and Facilities at 1890 Institutions. The Minority Research and Teaching Programs (MRTP) staff actively encourages USDA agencies to use campuses and facilities at 1890 institutions and other historically black colleges and universities to implement relevant aspects of the Department's program.

8. Departmental Task Force. The Historically Black Colleges and Universities Task Force is currently being redesigned and reinstituted as a vehicle for satisfying the requirements of Executive Order 12320 mandating "a significant increase in the participation by historically black colleges and universities in Federally sponsored programs."

Selected Examples of Recent Progress:

Streamlining Proposal. Developed plans for streamlining the USDA Civil Rights Program that will increase program efficiency through automation and shared resources, explore the feasibility of model program components, and consolidate training and other common program requirements.

Management. Planned and held management planning conferences using the Department's EO and other staff resources to plan and develop strategies for EO reorganization; developed budget and account management controls and consolidated administrative support services for OAE; and developed internal operating procedures for program support.

Compliance Reviews. Conducted comprehensive multi-agency Civil Rights Compliance reviews of USDA programs and employment in select agencies (APHIS, FmHA, FNS, ES, ASCS) and communicated findings in a timely manner.

Citizen's Advisory Committee on Equal Opportunity. Reestablished the Citizen's Advisory Committee on Equal Opportunity (CACEO), held the first meeting at an 1890 college and supported the completion and implementation of CACEO recommendations that were submitted to the Secretary.

Caribbean Basin Initiative. Initiated program planning to develop projects benefiting both historically black colleges and universities and the needs of developing Caribbean nations.

Small and Disadvantaged Business Utilization (SDBU) Goal Achievements. Exceeded USDA's goals as established by the Small Businness Administration (SBA) in awards to Section 8(a) disadvantaged business firms ($38 million), minority competitive ($20 million), women-owned business ($32 million), and Labor Surplus Areas ($184 million).

SDBU Program Management. Conducted six procurement assistance reviews at major USDA procurement offices to determine whether or not P.L. 95-507 requirements were being met.

Business Oportunity Conferences. Coordinated USDA participation in 23 Congressionally sponsored business opportunity conferences and participated in eight such conferences sponsored by minority organizations.

SDBU Coordinator Training. Provided quarterly training for agency SDBU Coordinators located in the Washington Metropolitan Area. In addition, SDBU staff participated in several FmHA training sessions for FmHA state personnel providing technical expertise in the preference program areas.

OFFICE OF ADMINISTRATIVE LAW JUDGES/JUDICIAL OFFICER

The Office of Administrative Law Judges consists of five Judges, who, pursuant to designation of authority, conduct rulemaking and adjudicatory hearings throughout the United States in proceedings subject to the Administrative Procedure Act (5 U.S.C. 554 et seq.). There are approximately 31 statutes administered by agencies within the USDA requiring APA hearings. The Judges issue initial decisions and orders in adjudicatory proceedings, which become final decisions of the Secretary unless appealed to the Secretary's Judicial Officer by a party to the proceedings. The Judges issue final consent orders following hearings or upon waiver of hearing. In addition, Judges perform related duties, such as reviewing and analyzing hearing records in rule making procedures, which are not inconsistent with their duties under the Administrative Procedure Act.

The attached table indicates the number of hearings held by Administrative Law Judges during the past three fiscal years. It shows the number of adjudicatory case dispositions and includes: initial decisions after hearings, initial decisions upon default, and final consent orders following hearings or upon waiver of hearing.

The Judical Officer serves as final deciding officer, in place of the Secretary, in regulatory proceedings of a quasi-judicial nature. These include cases in which Administrative Law Judges file Initial Decisions, which are appealed to the Secretary, and also reparation proceedings under the Perishable Agricultural Commodities Act and the Packers and Stockyards Act which are not subject to the Administrative Law Judge provisions of the Administrative Procedures Act. An appeal of an Administrative Law Judge's Initial Decision to the Judicial Officer may be filed by any party to the proceedings. Oral argument before the Judicial Officer is discretionary. The Judicial Officer also rules upon matters arising in proceedings that are certified by the Administrative Law Judges.

The Office of the Hearing Clerk was transferred to the Office of Administrative Law Judges in 1976, and thereafter transferred to OIRM for 120 days of specialized training in automated administrative systems in October 1985. The Hearing Clerk, like a Clerk of a Court, receives, files, and serves pleadings, briefs and decisions; maintains the official record (including the transcripts of adjudicatory and rulemaking hearings); and, in the event of an appeal, certifies such records to the Court of Appeals or District Court for subsequent review. The Hearing Clerk has responsibility for publication of Agriculture Decisions, the official compilation of quasi-judicial and judicial decisions issued under regulatory laws administered by the Department.

HEARINGS AND DISPOSITIONS

ACT OR LAW (Type of Proceeding)	FY 1983		FY 1984		FY 1985	
	Hearings 2/	Dispositions	Hearings 2/	Dispositions	Hearings 2/	Dispositions
AGRICULTURAL MARKETING AGREEMENT ACT, 1937						
(Adjudicatory)	3	5	2	9	1	3
(Rulemaking) 1/	26	-	22	-	11	-
AGRICULTURAL MARKETING ACT, 1946 (Inspection and Grading) (Adjudicatory)	-	1	1	2	-	2
ANIMAL QUARANTINE & RELATED LAWS (Veterinary Accreditation) (Adjudicatory)	2	3	2	8	-	1
Animal Quarantine (Adj)	-	-	2	45	10	111
Plant Quarantine (Adj)	-	-	1	9	-	64
ANIMAL WELFARE ACT (Adj)	4	34	8	37	5	38
FEDERAL MEAT INSPECTION ACT (Adjudicatory)	1	7	12	14	3	8
HORSE PROTECTION ACT (Adj)	-	15	1	5	-	7
PACKERS AND STOCKYARDS ACT (Adjucdicatory)	8	119	7	136	16	140
PERISHABLE AGRICULTURAL COMMODITIES ACT (Adj)	12	47	10	35	5	45
FLORAL RESEARCH & CONSUMER INFO. ACT (Rulemaking) 1/	5	-	-	-	-	-
POTATO RESEARCH & PROMOTION ACT (Rulemaking) 1/	-	-	1	-	-	-
TOBACCO INSPECTION/PRICE SUPPORT (Rulemaking) 1/	1	-	1	-	2	-
EGG RESEARCH & CONSUMER INFO. ACT (Rulemaking)	-	-	-	-	-	-
(Adjudicatory)	-	-	-	1	-	2
HONEY RESEARCH & CONSUMER INFO. ACT (Rulemaking)	-	-	-	-	2	-
TOTALS	62	231	70	301	55	421
(Number of hearings scheduled)	(144)		(181)		(159)	
(No. of cases pending Oct 1)	(77)		(99)		(87)	

1/ Judges review and certify hearing records in Rulemaking proceedings (not counted as dispositions).

2/ Telephone pretrial conferences are not included.

WORKING CAPITAL FUND

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

		1985	1986	1987
	Personnel Compensation:			
	Headquarters	$ 4,960,000	$ 5,134,000	$ 5,155,000
	Field	35,541,000	35,140,000	35,844,000
11	Total Personnel Compensation	35,820,000	35,999,000	36,715,000
12	Personnel Benefits	4,522,000	4,086,000	4,114,000
13	Benefits for Former Personnel	159,000	189,000	170,000
	Total Personnel Compensation and Benefits	40,501,000	40,274,000 [1]	40,999,000
	Other Objects:			
21	Travel	533,000	688,000	738,000
22	Transportation of things	176,000	228,000	247,000
23.1	Standard Level User Charges	2,771,000	2,709,000	3,011,000
23.2	Communications, Utilities and Other Rent	28,606,000	28,358,000	30,848,000
24	Printing and Reproduction	753,000	1,284,000	1,311,000
25	Other Services	17,685,000	19,167,000	19,873,000
26	Supplies and Materials	5,521,000	6,060,000	5,830,000
31	Equipment	10,087,000	12,894,000	14,934,000
43	Interest and Dividends	21,000	- -	- -
92	Depreciation	3,147,000	4,620,000	6,694,000
	Total other objects	69,300,000	76,008,000	83,486,000
	Total	$109,801,000	$116,282,000	$124,485,000

Position Data:

	1985	1986	1987
Average Salary, ES positions	$68,700	$67,566	$67,566
Average Salary, GS positions	$21,209	$22,139	$23,021
Average Grade, GS positions	7.24	7.43	7.67

[1] This amount reflects comparability with the FY 1987 estimates which include activities transferred to Working Capital Fund financing beginning in FY 1987. The budget shows a total of $39,661,000 for object classes 11, 12, and 13, and therefore, does not exceed $40,001,000 as set forth in section 607 of the General Provisions of the Agriculture, Rural Development, and Related Agencies Appropriations Act of FY 1986.

WORKING CAPITAL FUND

The estimates include appropriation language for this item as follows:

Working Capital Fund

An amount of $6,000,000 is hereby appropriated to the Departmental Working Capital Fund to increase the Government's equity in this fund and to provide for the purchase of automated data processing, data communication, and other related equipment necessary for the provision of Departmental centralized services to the agencies.

WORKING CAPITAL FUND

Appropriation:	
Appropriation Act, 1986	$ 6,000,000
Budget Estimate, 1987	6,000,000
Change in Appropriation	$ 0

Adjustments in, 1986:	
Appropriation Act, 1986	$6,000,000
Less Pro-Rata Reduction P.L. 99-190	-36,000
	$5,964,000

Net Appropriation	
Adjusted Base, 1986	$ 5,964,000
Budget Estimate, 1987	6,000,000
Increase over Adjusted 1986	$ + 36,000

Program Activity:	
Operating Estimate, 1986	$113,794,000
Budget Estimate, 1987	124,485,000
Increase over 1986	+$10,691,000

SUMMARY OF INCREASES AND DECREASES
(On the basis of adjusted appropriation)

Item of Change	1986 Estimated	Program Changes	1987 Estimated
Capitalization of the Fund	$ 5,964,000	+$36,000	$ 6,000,000

PROJECT STATEMENT
(On Basis of Appropriation)

Project	1985		1986 (Estimated)		Increase or Decrease	1987 (Estimated)	
	Amount	Staff-Years	Amount	Staff-Years		Amount	Staff-Years
Working Capital Fund	$6,000,000	--	$5,964,000	--	$36,000	$6,000,000	--
Total	$6,000,000	--	$5,964 000	--	$36,000	$6,000,000	--

1. An increase of $36,000 in the Appropriation for Capital Equipment. ($5,964,000 avaiable in FY 1986.)

Need for Changes. An increase of $36,000 over the FY 1986 amount is requested for FY 1987 in order to proceed with the third year of a-four year plan to increase the capitalization of the Working Capital Fund.

Nature of Change. This increase is needed for the purchase of new ADP equipment and for the conversion of existing leased equipment to purchase.

WORKING CAPITAL FUND

SUMMARY OF INCREASE AND DECREASES
(Program Activity)

Item of Change	1986 Estimated	Program Changes	1987 Estimated
1. Supply & Other Central Services	$7,917,000	+$295,000 (1)	$8,212,000
Central Supply Stores	2,083,000	-27,000	2,056,000
Central Supply Forms	2,003,000	+64,000	2,067,000
Mail Distribution Service	1,717,000	+16,000	1,733,000
Automated Mail List	231,000	+1,000	232,000
Executive Corresp. & Records	511,000	+4,000	515,000
*Central Shipping & Receiving	291,000	+209,000	500,000
*Central Excess Property	584,000	+25,000	609,000
*Training Programs	497,000	+3,000	500,000
2. Reproduction Services	3,405,000	-934,000 (2)	2,471,000
Printing Plant	1,082,000	-1,082,000	0
Copier Service	2,323,000	+148,000	2,471,000
3. Video & Film, & Visual Design Services	3,045,000	-140,000 (3)	2,905,000
Video and Film	936,000	+47,000	983,000
Visual Design Services	2,109,000	-187,000	1,922,000
4. Office of Finance & Management	45,310,000	+3,630,000 (4)	48,940,000
National Finance Center-Wash.	646,000	+123,000	769,000
National Finance Center-Field	44,664,000	+3,507,000	48,171,000
5. ADP Services 1/	43,943,000	+3,306,000 (5)	47,249,000
Washington Computer Center	12,902,000	-843,000	12,059,000
Fort Collins Computer Center	13,147,000	+2,811,000	15,958,000
Kansas City Computer Center	15,898,000	+1,222,000	17,120,000
Computer Services Unit	880,000	+58,000	938,000
*Telephone Operations	816,000	+8,000	824,000
*Local Area Network	300,000	+50,000	350,000
Total Recurring Operations	103,620,000	+6,157,000	109,777,000
Capital Equipment Acquisition	12,662,000	+2,046,000 (6)	14,708,000
Total	116,282,000	+8,203,000	124,485,000
Adjustment for Comparability	-2,488,000	+2,488,000	0
Total	$113,794,000	+$10,691,000	$124,485,000

* These activities will be transferred to the Working Capital Fund in FY 1987. The dollar amounts for FY 1986 are shown for comparability purposes.

1/ Subsequent to the printing of the Budget, the amount included in the budget for Agriculture Washington Area Telephone System was removed. The printed budget initially included $3,500,000 and $1,766,000 for FY 1986 and FY 1987 respectively.

PROJECT STATEMENT
(On Basis of Program Activity)

Project	1985		1986 (Estimated)		Increase or Decrease	1987 (Estimated)	
	Amount	Staff-Years	Amount	Staff-Years		Amount	Staff-Years
1. Supply & Other Central Services	$7,697,000	97	$7,917,000	98	+$295,000	$8,212,000	95
Central Supply Stores	1,610,000	8	2,083,000	9	-27,000	2,056,000	9
Central Supply Forms	2,190,000	3	2,003,000	3	+64,000	2,067,000	3
Mail Distributn Service	1,743,000	58	1,717,000	58	+16,000	1,733,000	57
Automated Mail List	210,000	3	231,000	3	+1,000	232,000	3
Exec. Corresp. & Recrds	527,000	12	511,000	12	+4,000	515,000	10
*Central Ship. & Rec.	264,000	1	291,000	1	+209,000	500,000	1
*Central Excess Property	717,000	6	584,000	6	+ 25,000	609,000	6
*Training Programs	436,000	6	497,000	6	+ 3,000	500,000	6
2. Reproduction Services	3,441,000	53	3,405,000	43	-934,000	2,471,000	31
Printing Plant	1,446,000	23	1,082,000	14	-1,082,000	0	0
Copier Service	1,768,000	27	2,323,000	29	+148,000	2,471,000	31
Photocomposition	227,000	3	0	0	0	0	0
3. Video & Film, & Visual Design Services	3,269,000	21	3,045,000	21	-140,000	2,905,000	21
Video and Film	820,000	8	936,000	9	+47,000	983,000	9
Photographic Service	470,000	2	0	0		0	0
Visual Design Services	1,979,000	11	2,109,000	12	-187,000	1,922,000	12
4. Office of Finance and Management	44,105,000	1,202	45,310,000	1,197	+3,630,000	48,940,000	1,184
Nat. Finance Cntr-Wash.	368,000	6	646,000	8	+123,000	769,000	8
Nat. Finance Cntr-Field	43,737,000	1,196	44,664,000	1,189	+3,507,000	48,171,000	1,176
5. ADP Services [1]	42,201,000	238	43,943,000	245	+3,306,000	47,249,000	236
Washington Computr Cntr	10,506,000	70	12,902,000	79	-843,000	12,059,000	75
Fort Collins Comptr Ctr	13,719,000	82	13,147,000	82	+2,811,000	15,958,000	77
Kansas City Computr Ctr	14,502,000	77	15,898,000	74	+1,222,000	17,120,000	74
Computer Services Unit	749,000	7	880,000	7	+58,000	938,000	7
*Telephone Operations	800,000	1	816,000	2	+8,000	824,000	2
*Local Area Network	1,925,000	1	300,000	1	+50,000	350,000	1
Total Recurring Operations	100,713,000	1,611	103,620,000	1,604	+6,157,000	109,777,000	1,567
Capital Equip. Acquisition	9,088,000	0	12,662,000	0	+2,046,000	14,708,000	0
Total	109,801,000	1,611	116,282,000	1,604	+8,203,000	124,485,000	1,567
Comparability Adjustment	-4,142,000	-15	-2,488,000	-16	+2,488,000	0	0
Total	$105,659,000	1,596	$113,794,000	1,588	+$10,691,000	$124,485,000	1,567

* These activities will be transferred to the Working Capital Fund in FY 1987. The dollars amounts for FY 1985 and FY 1986 are shown for comparability purposes.

[1] Subsequent to the printing of the Budget, the amount included in the budget for Agriculture Washington Area Telephone System was removed. The printed budget initially included $3,500,000 and $1,766,000 for FY 1986 and FY 1987 respectively.

EXPLANATION OF PROGRAM

The USDA Working Capital Fund, authorized in 1944 (7 U.S.C. 2235), finances services provided to USDA agencies on a centralized basis. Under the law, only activities approved by the Director of OMB may be carried out under the Fund. Centralization is recommended by the Department and approved by OMB when:

-- Centralization will result in cost savings due to:

- Economies of scale
- Reduced overhead
- Central cost based management
- Coordination which avoids duplication of effort among agencies

-- Centralization offers other advantages such as:

- Improved services to agencies and to the public
- Availability of services to agencies who could not afford them except on a centralized basis
- Ability to replace equipment on a long-term basis including depreciation costs in rates charged to users

The Fund received an initial appropriation of $400,000 in 1944. Since then additional working capital has been made available through initial transfers as activities were brought into the Fund and through Congressional authorizations to receive growth capital from serviced USDA agencies. In FY 1986 $5,964,000 was appropriated to the Fund for the purchase of currently leased or new equipment used at the Computer Centers and the National Finance Center to provide services requested by agencies of the Department. This investment will avoid lease cost increases over the remaining life of the equipment and result in lower unit costs for central services provided to these users. An additional $6,000,000 in capital funding is requested in FY 1987 as the third phase of a planned 4-year program to increase the capitalization of the Fund. WCF operations are financed by charging user agencies the actual costs of providing the centralized services they require. The following services are financed through the Working Capital Fund:

Supply and Other Central Services. This area includes the following services supervised by the Office of Operations: (a) central supply, acquiring, receiving, storing, issuing, packing and shipping office and other supplies, blank forms and miscellaneous materials; (b) mail distribution, operating the USDA mail processing unit providing mail and messenger services for most agencies; (c) automated mailing list, maintaining address files and producing mailing labels through a computerized system; and (d) executive correspondence, refering all mail addressed to the Secretary, the immediate Office of the Secretary, and the Department to the appropriate agency for preparation of replies and operating a control system to assure timely processing of correspondence.

In FY 1987, three additional supply and central service activities will be brought into the Fund. Two of these will be supervised by the Office of Operations. They are: (a) Central Shipping and Receiving, serving as the downtown Washington, D.C. complex central receiving point for incoming supplies and materials, internal distribution center for supplies and materials, and central shipping point for outgoing materials not handled by mail distribution; and (b) Centralized Excess Property Operation, managing the acquisition, distribution, and rehabilitation of office property and furniture for agencies in the Washington D.C. metropolitan area. The third new activity is Departmental Training Programs, managed by the Office of Personnel, providing USDA agency employees a variety of opportunities for professional improvement.

Reproduction Services. This activity in the Office of Operations includes: (a) the printing plant, furnishing printing services, including duplicating, reproducing, binding, addressing and mailing, and related services, and (b) short order and copier stations for duplicating and copy production. The photocomposing unit, which produced camera-ready copies for offset reproduction, was removed from the Fund in FY 1986. The printing plant will close at the end of FY 1986.

Video and Film, & Visual Design Services. The Office of Governmental and Public Affairs plans, designs, and produces visual information materials, exhibits, art and graphics materials for the Department and other Governmental agencies.

National Finance Center. This activity in the Office of Finance and Management carries out the Department's fiscal and accounting policies, procedures, and regulations; processes the Department's centralized payroll, personnel transactions, and administrative voucher payments; serves as central contact point with commercial vendors on matters relating to payments and payment procedures; serves as central point for the Department in external financial reporting to Treasury and other agencies; and provides management reports for all agencies of the Department. The National Finance Center also provides financial and accounting services to a number of other Federal Departments.

Automatic Data Processing (ADP) Services. The activities in this area are supervised by the Office of Information Resources Management. Departmental computer centers providing ADP services to USDA agencies are located at Ft. Collins, Colorado; Kansas City, Missouri; and Washington, D.C.. The Computer Services Unit, servicing Departmental Staff Offices and the Office of the Secretary, is also operated in Washington, D.C.. In FY 1987, a telecommunications activity will be brought into the Fund. This activity will coordinate the telecommunication operations of the Department by providing the following services: (a) Telephone Service Operations, and (b) Local Area Computer Network Services.

JUSTIFICATION OF INCREASES AND DECREASES

Centralized administrative services continue to be managed to assure that operation costs remain at the lowest possible level for services requested by user agencies. This has resulted in reductions in overall unit costs of recurring operations in FY 1985 compared to previous estimates of such costs. These reduced unit cost levels have been considered together with the latest estimates in workload requirements of the serviced agencies in developing revised estimates for FY 1986 and initial estimates for FY 1987.

Centralized service activities are regularly reviewed in line with the Administration's management initiatives and directives to determine their continued applicability as centralized services and to analyze alternative operating methods which could result in more efficient operations. As the outcomes of these studies are released and as agencies change their levels of workload for central services, the estimates for FY 1986 and 1987 could change significantly. Such changes, if required, will be subject to managerial and policy review and approval at the Department level.

The following is an explanation of program activity changes currently anticipated from FY 1986 to FY 1987.

1. A net increase of $295,000 for recurring operations of Supply and Other Central Services ($7,917,000 available for FY 1986).

A net increase of $295,000 in operating costs is distributed as follows:

Central Supply Stores	-$27,000
Central Supply Forms	+64,000
Mail Distribution Service	+16,000
Automated Mail List	+1,000
Executive Correspondence & Records	+4,000
Central Shipping & Receiving	+209,000
Central Excess Property Operation	+25,000
Departmental Training Programs	+3,000
Total	+$295,000

Need for Change. The reduced funding level in the Central Supply Stores is due to lower administrative and management costs. The increase for Central Shipping & Receiving is due to the expansion of this operation to include the complete property receiving and warehousing function for all agencies in the Washington, D.C. complex. Increases for the remaining activities are due to increases in operating costs.

Nature of Change. The Central Supply Stores expects to achieve lower operating costs due to reduction of administrative and management costs. The Central Shipping and Receiving activity expects an increase in the cost of contractual services due to the planned expansion of operations in FY 1987. The increases for the remaining activities are due to an increase in general operating costs.

2. A net decrease of $934,000 for recurring operations of Reproduction Services ($3,405,000 available in FY 1986).

A net decrease of $934,000 in operating costs is distributed as follows:

Printing Plant	-$1,082,000
Copier Service	+148,000
Total	-$934,000

Need for Change. The cost reduction in the Printing Plant is due to that activity closing at the end of FY 1986. This reduction will be offset in part by an increase for the Copier Service. Without an in-house printing capability, an increase in demand for high quality copier service is anticipated in FY 1987.

Nature of Change. The increase in Copier service is for additional staffing, operating supplies, and materials.

3. A net decrease of $140,000 for recurring operation of Video and Film, and Visual Design Services, ($3,405,000 available in FY 1986).

A net decrease of $140,000 in operating costs is distributed as follows:

Video and Film Services	+47,000
Design Services	-$187,000
Total	-$140,000

Need for Change. An increase is needed by Video and Film due to increased operating costs. The decrease in Design Services is planned due to a reduction in workload.

Nature of Change. The increase for the Video and Film Services is for operating costs. The decrease in Design Services is due to a reduction in the demand for exhibit services.

4. An net increase of $3,630,000 for recurring operations of the Office of Finance and Management/National Finance Center (NFC) ($45,310,000 available in FY 1986).

   Need for Change. The continuing development of cooperative processing within USDA and the expansion of initiatives to provide financial and accounting support to other Federal Departments and Agencies increases the volume of work which must be accomplished at the NFC. This workload increase, while providing efficiencies in government-wide financial management operations, is the basis for the requested funding increase.

   Nature of Change. In continuing initiatives to provide centralized financial management services to both USDA and non-USDA clients, increased funding support is required to insure the technical and personnel resource capacity to deliver services. Maintaining the quality of technical support for NFC will require increases in software and equipment rentals, and in other services. NFC tries to hold costs down by purchasing equipment when advantageous. The purchase of equipment, either new or previously leased, will provide cost savings over and above the requested increase for depreciation costs. Increases in costs are related to the increasing workload demands associated with providing services to non-USDA clients. The costs of services provided to non-USDA clients are recovered through billings to these Agencies, which includes their variable costs and their related share of fixed costs. Although an increase is requested for the NFC, government-wide costs will be reduced through economies of scale and the increase in the workload at the NFC will results in lower unit costs to USDA agencies.

5. An net increase of $3,306,000 for recurring operations of ADP systems ($43,943,000 available in FY 1986).

   A net increase of $3,306,000 for these activities as follows:

Washington Computer Center	-$843,000
Fort Collins Computer Center	+2,811,000
Kansas City Computer Center	+1,222,000
Computer Services Unit	+58,000
Telephone Operations	+8,000
Local Area Network	+50,000
	$3,306,000

   Need for Change. FY 1987 workload increases are expected at the Fort Collins and Kansas City Computer Centers. The Computer Services Unit expects a small increase in workload related to increased use of distributive processing at the headquarters location. The increase for the Department's Local Area Network is due to the planned installation of the system.

   Nature of Change. Cost increases are primarily in the categories of ADP software, ADP equipment rental, maintenance, and depreciation. The decrease at the Washington Computer Center reflects a reduction in ADP equipment rental due to a decrease in workload. The Local Area Network requires an increase in ADP equipment rentals needed as part of the implementation of the system.

6. A net increase of $2,046,000 for capital equipment acquisitions ($12,662,000 available in FY 1986).

   (a) A decrease of $12,662,000 used to acquire capital equipment in FY 1986

   (b) An increase of $14,708,000 for capital acquisitions in FY 1987 as follows:

   This level of equipment acquisition assumes the use of the $6,000,000 appropriation for additional capitalization of the Fund in FY 1987.

   (1) An increase for capital acquisitions for the Office of Finance and Management/National Finance Center of $12,214,000.

   Need for Change. The additional capital equipment is needed to meet the projected workload increase, to improve reliability, and to allow for the expansion of services to USDA agencies.

   Nature of Change. This equipment replaces an obsolete computer. The new system will provide on-line agency access to USDA-wide financial information systems, property systems and personnel management information. Also, it offers greater efficiency, lower energy consumption, and lower repair and maintenance costs.

   (2) An increase for capital acquistions for the Office of Information Resources Management of $1,864,000.

Washington Computer Center	$ 390,000
Fort Collins Computer Center	1,172,000
Kansas City Computer Center	302,000
Computer Services Unit	0
Telecommunication Services	0
Total	$1,864,000

   Need for Change. Workload increases are projected at the Fort Collins and Kansas City Computer Centers. These acquisitions are needed to upgrade existing equipment and acquire new equipment which will increase productivity and improve efficiency to meet expected workload demands of user agencies.

   Nature of Change. The Fort Collins Computer Center plans to purchase ADP equipment which is currently being leased. This will result in lower costs to users over the life of the equipment. The Kansas City and Washington Computer Centers will use their funds to upgrade and increase disk storage capacity.

   (3) An increase in capital acquisitions for the Office of Governmental and Public Affairs/Video and Film of $81,000.

   Need for Change. The capital equipment is needed to improve and upgrade the quality of services to meet user demand.

   Nature of Change. Video broadcasting and studio equipment will be acquired in order to provide better service to user agencies.

(4) An increase in capital acquisitions for the Office of Operations of $549,000.

Copier Service	$449,000
Mail Distribution	50,000
Central Supply Stores	25,000
Central Supply Forms	25,000
Total	$549,000

Need for Change. The additional capital equipment is needed to provide expanded copier services, and to improve and upgrade existing equipment for Mail Distribution and Central Supply Stores and Forms operations.

Nature of Change. The Copier Service will acquire high speed copiers to meet the increased user demand anticipated with the closing of the USDA Printing Plant. The Central Supply Stores and Forms operations plan to acquire forklifts to improve materiel handling. The Mail Distribution Unit will acquire additional mailmobiles for delivery service.

WORKING CAPITAL FUND

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS

1985 and Estimated 1986 and 1987

Geographic Location	1985 Amount	1985 Staff Years	1986 Amount	1986 Staff Years	1987 Amount	1987 Staff Years
Colorado	$14,575,000	82	$19,544,000	82	$17,130,000	77
District of Columbia ...	28,265,000	253	30,266,000	256	27,456,000	237
Louisiana....	49,732,000	1,196	47,948,000	1,189	60,385,000	1,176
Maryland	2,208,000	3	2,018,000	3	2,092,000	3
Missouri	15,021,000	77	16,506,000	74	17,422,000	74
Total Available or Estimate ...	$109,801,000	1,611	$116,282,000	1,604	$124,485,000	1,567

Table above includes comparability adjustment for FY 1985 and FY 1986 for those activities being transfered into the Fund in FY 1987.

WORKING CAPITAL FUND

STATUS OF PROGRAM

The USDA Working Capital Fund (WCF) was authorized in 1944 by 7 U.S.C. 2235 to finance services provided to USDA agencies on a centralized basis. These central operations provide efficient, economical services through economies of scale, extensive management attention, and high-level quarterly fund control reviews. The benefits that result are reflected in cost avoidances to the program agencies for administrative and support services. The Director of the Office of Finance and Management (OFM) serves as WCF Comptroller to monitor and supervise the WCF. Four USDA Agencies: the Office of Operations (OO), the Office of Information Resources Management (OIRM), the Office of Finance and Management (OFM), and the Office of Governmental and Public Affairs (OGPA) receive funds through this mechanism to provide services to USDA agencies. All but one of these agencies, the Office of Governmental and Public Affairs, are under the direct supervision of the Assistant Secretary for Administration. OGPA is under the supervision of the Assistant Secretary for Governmental and Public Affairs.

Select Examples of Recent Progress. Recent accomplishments of the WCF-funded activities operated by each of these agencies are summarized below.

Reproduction Services - Office of Operations

- The first three phases of a four-stage personnel reduction at the Printing Plant were fully completed by the end of FY 1985 when FTE staffing in the printing plant was reduced from 23 to 11 positions. The Printing Plant attained its goal of 55 million units of printed material for the year.
- FY 1985 cost per copy in the Copier Service was the same as in FY 1979 despite inflation.
- Mail Services productivity is up 9% per staff year while still maintaining the same quality service; i.e., timely mail pick up and delivery.

Supply Services - Office of Operations

- Operation of the Departmental Forms Warehouse at Landover, Maryland was converted from one contractor to another due to default for non-performance. An automated system has been developed for improving inventory control, and improved utilization of space has resulted in approximately 5,000 square feet for additional inventory.
- A management review of the Central Supply Stores resulted in a reduction of overhead expenses in excess of $99,000 and increased productivity per employee of 15%. The table below shows levels of production for the Central Supply Stores and Forms activities during Fiscal Years 1984 and 1985:

Number of Central Supply Requisitions Processed

		FY 1984	FY 1985	Increase	% Change
Forms-	Routine	14,861	16,280	+1,419	+10%
	Emergency	3,581	4,019	+438	+12%
	Total	18,442	20,299	+1,857	+10%
Stores-	Routine	1,972	2,358	+386	+20%
	Emergency	541	744	+203	+38%
	Total	2,513	3,102	+589	+23%

Executive Correspondence and Records - Office of Operations

During FY 1985 an automated filing system was installed. This new system allows the filing and retrieving of records in a timely and efficient manner.

Video & Film Center, Office of Governmental and Public Affairs

The Video and Film Center is the central facility for the Department's video and film work. Commercial contracts are used to supplement the Center's capablilities. Training and travel costs are reduced Department-wide through effective use of audio and video teleconferencing and video training materials. Some examples and highlights of this work in Fiscal Year 1985 include the following:

- Sixteen video conferences were produced. Fourteen of the events were "live" video originations from the Center's studio. Two video conferences originated from Oklahoma State University.

- Two regular broadcast television programs, "Down to Earth" and "Agriculture Update," were produced in the Center's studio. A total of 260 "Down to Earth" segments were produced and distributed to TV stations nationwide. Twenty-six "Agriculture Update" programs were produced. A weekly agricultural TV news package was videotaped and edited for distribution by satellite to TV stations.

- A 39-minute management improvement videotape was produced for viewing by USDA employees highlighting management improvements underway at USDA.

- Two public service announcements on salt use in daily diets were filmed and edited for the Food Safety and Inspection Service. These "Fair Shake" spots illustrated seasoning alternatives to salt.

- Video coverage of a Soviet agriculture official's visit and negotiations with the Secretary of Agriculture at his Illinois farm was provided.

- Major work was completed on an Avian Influenza film for the Animal and Plant Health Inspection Service. This is an informational film designed for viewing by poultry producers.

- A Council of Non-theatrical Events (CINE) Gold Eagle Award was given to "INSIDE/OUT: The Story of Food and Fitness." USIA sought USDA permission to duplicate and distribute this docudrama produced in 1984 to posts throughout the world.

- "Objective Yield Survey for Soybeans" was a training videotape which the Center produced for the Statistical Reporting Service. It is being used by field staff to learn and review procedures for soybean yield measurements.

Visual Design Service - Office of Governmental and Public Affairs

The Visual Design Service is the central facility for graphic design and exhibit fabrication work. Selected samples of recent projects include the following:

- The President's Committee on Employing the Handicapped's "Inspire 85" was a major exhibit on handicapped people presented on the Mall. The Design Divsion coordinated 16 various Government agency exhibits and developed the symbol and printed material.

- An exhibit, 24 page full-color brochure, mini fact sheets, and a logo were designed and fabricated for "Dietary Guidelines for America."

- For the APHIS International Airport Awareness Program international symbols, an office proposal, a uniform design, signs, posters, and a series of brochures were developed.

- Major Visitor Center for the Forest Service at Portage Glacier in Anchorage, Alaska was completed.

- Numerous traveling exhibits for USDA agencies including: FmHA, FS, OIG, OSDBU, ARS, FGIS, NAL, SCS, ES, APHIS, OICD, and HNIS were completed.

- An informational videotape about services and assistance available through USDA's Washington Computer Center was completed.

- A half-hour conservation documentary on "Saving the Cheasapeake Bay" was completed for use as a completed episode of USDA's weekly "A Better Way" consumer television program.

Photography Service - Office of Governmental and Public Affairs

Operations of the photography service were discontinued in FY 1985.

Computer Services - Office of Information Resources Management

The Departmental Computer Centers (DCC's) include Ft. Collins, Colorado, Kansas City, Missouri, and Washington, D.C. These DCC's provide large-scale computer services, technical support to assist in the development of applications systems, assistance on technical problems, and ADP training. Specific accomplishments are as follows:

- Acquisition of Additional Production Computing Capacity. All three Centers upgraded the power of their central processing units in response to user's increasing workload requirements. Additional disk and tape storage units were installed in each Center as well as improved communications hardware and software. These enhancements enabled the Centers to continue high quality services to user agencies while increasing productivity. The greatest reductions were achieved at Washington Computer Center and Kansas City Computer Center where costs per CPU minute declined by more than 30 percent.

- Network Management. All three Centers took action to improve telecommunications management within the Center, between Centers, and with user agencies. All three Centers initiated implementation of a "network control center" to improve internal management of computing and telecommunications systems and to facilitate problem identification and resolution for users.

- Integrated DCC Information Resources Management Planning. OIRM developed a planning process to coordinate preparation of a "DCC Integrated Long-Range IRM Plan," covering all the three DCCs, the Office of the Secretary Service Center, and the computer operations of the National Finance Center for fiscal years 1986-1990. Fort Collins Computer Center (FCCC) provided staff assistance for this project. This process was effective in improving communication among the Centers and with NFC, and has led to a number of joint projects, including consolidated procurements of major hardware components.

- Information Center. WCC assists users in taking advantage of new information technologies to improve decision-making. Special emphasis is placed on building awareness and training users in microcomputer-to-mainframe linkages, using new data analysis tools, and computer graphics.

- Information Management. KCCC, in cooperation with OIRM headquarters, initiated the design and implementation of a Department-wide Information Locator System. This is an on-line data base containing information about computer hardware installed, software currently available, records and reports, forms, and Departmental regulations. When fully implemented in FY 1986, the system will improve sharing of information among agencies, reduce duplication of effort in software development, and reduce paperwork.

- Productivity Study. OIRM was assigned the lead for developing a request for proposals to conduct a productivity study of the Departmental Computer Centers and the National Finance Center. FCCC provided staff assistance for this project by coordinating the technical evaluation of the proposals and serving as the contracting officer's technical representative. The study will result in recommendations for short and long-term actions to improve productivity at all Centers. The contract will continue until March 1986.

Voucher Payments, Payroll/Personnel and Accounting Services - Office of Finance and Management

The National Finance Center (NFC) functions as the centralized payment and financial service center for the Department of Agriculture. The NFC performs payroll/personnel, administrative payments, billings and collections, property management, and accounting functions. Following are some of the more notable achievements accomplished by the NFC in FY 1985:

- The NFC levied approximately $217,000 in late payment penalties against delinquent accounts receivable. The redesigning and programming of the Administrative Billings and Collections System (ABCO) was completed. The system automatically generates Debt Manager Progress Reports to help user agencies run effective debt management programs. The redesigned ABCO system is the most complete system in the Government fully addressing the requirements of the Debt Collection Act of 1982.

- By effectively targeting payments when due, interest savings of over $1.6 million were realized during FY 1985 through reduced Treasury borrowing.

- The Central Accounting System (CAS) was successfully expanded to include Soil Conservation Service, Office of Management Reform, and Merit System Protection Board. The conversions were implemented smoothly in spite of many modifications which had to be accomplished. Additionally, extensive development and program modifications were completed during FY 1985 to facilitate the conversion of the Agricultural Marketing Service and the Rural Electrification Administration to the CAS.

- The Central Accounting Data Base Inquiry (CADI) System was developed and implemented. Through CADI, agencies will have online access and inquiry capability to their CAS budgetary reports. The system is currently operational for NFC, OFM headquarters, and Office of the Secretary.

- The NFC aggressively worked toward cross-servicing non-USDA agencies. The initial conversion of the Department of Commerce (DoC) to the USDA Payroll/Personnel System was accomplished. Processing services were expanded for the Department of Education to include administrative billings and collections activities. NFC also began working with Education to develop a requirements package for processing program billings and collections.

- During FY 1985, significant progress was made in payroll/personnel processing as a result of increased emphasis on cooperative processing. Electronic Time and Attendance transmission was expanded to include 15 agencies. Also, 10 agencies joined the cooperative processing environment.

- User agencies can now process 30 different types of payroll/personnel documents via the Personnel Remote Entry System (PRES). A major enhancement added a procedure for online suspense correction for payroll/personnel documents without adverse impact on the normal biweekly payroll activity.

- In FY 1985, the Government Online Accounting Link System (GOALS) was implemented at NFC. This system enhanced current automated processes directly related to payment, collections, and accounting and reporting functions. Use of this system will enable the NFC to provide automated financial data to Treasury and other Government entities. This system also results in more accurate, timely, and responsive reporting to user agencies.

RENTAL PAYMENTS AND BUILDING OPERATIONS

Purpose Statement

This annual account finances the appropriated portion of payments to the General Services Administration (GSA) for rental of leased space and related services.

Funding is not provided for payments to GSA made by the Forest Service, since the Forest Service is funded in the Interior and Related Agencies Appropriations Act.

As of October 1, 1984, GSA delegated authority to USDA for operation, maintenance, repair and minor improvements of the U.S.D.A. downtown D.C. building complex, which encompasses 14.1 acres of ground and five-buildings containing three million square feet of space occupied by over 10,000 employees.

As of September 30, 1985, there were 32 full-time employees assigned to this activity, located in Washington, D.C.

Rental Payments and Building Operations

Available Funds and Staff-Years

1985 Actual and Estimated 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Rental Payments to GSA	$53,094,000	- -	$51,013,000	- -	$57,380,000	- -
Building Operations	13,800,000	32	17,693,000	52	18,800,000	52
Total, Appropriation	66,894,000	32	68,706,000	52	76,180,000	52
Obligations under other USDA Appropriations:						
Overtime utilities and miscellaneous services	800,270	- -	800,000	- -	800,000	- -
Total, Rental Payments and Building Operations	$67,694,270	32	$69,506,000	52	$76,980,000	52

Full-Time Equivalent Staff-Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	32	51	51
Non-Ceiling	- -	1	1
Total	32	52	52

Rental Payments and Building Operations and Maintenance

Permanent Positions by Grade and Staff-Year Summary
1985 and Estimated 1986 and 1987

Grade	1985 Headquarters/ Total	1986 Headquarters/ Total	1987 Headquarters / Total
Executive Level IV	--	--	--
ES-6	--	--	--
ES-5	--	--	--
ES-4	--	--	--
ES-3	--	--	--
ES-2	--	--	--
ES-1	--	--	--
GS/GM-15	1	1	1
GS/GM-14	2	4	4
GS-13	4	8	8
GS-12	5	7	7
GS-11	--	3	3
GS- 9	--	--	--
GS- 8	--	--	--
GS- 7	--	1	1
GS- 6	2	4	4
GS- 5	3	3	3
GS- 4	3	4	4
GS- 3	1	1	1
GS- 2	--	--	--
Other graded position	11	15	15
Total Permanent Positions	32	51	51
Staff-Years			
Ceiling	32	51	51
Non-ceiling	--	1	1
TOTAL	32	52	52

RENTAL PAYMENTS AND BUILDING OPERATIONS

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

	1985	1986	1987
Personnel Compensation:			
Headquarters	$ 749,273	1,440,000	1,458,000
11 Total personnel compensation	749,273	1,440,000	1,458,000
12 Personnel benefits	92,531	153,000	163,000
13 Benefits for former personnel	4,438	7,000	7,000
Total Personnel Comp. and Benefits	846,242	1,600,000	1,628,000
Other Objects:			
21 Travel	2,164	4,000	6,000
22 Transportation of things ...	3,325	3,000	3,000
23.1 Standard Level User Charges.	52,766,671	51,013,000	57,380,000
23.2 Communications, utilities and other rent	2,282,007	4,995,000	5,234,000
24 Printing and reproduction ..	12,343	40,000	41,000
25 Other services	10,391,486	10,812,000	11,643,000
26 Supplies and materials	54,079	74,000	75,000
31 Equipment	53,304	165,000	170,000
32 Land and Structures	155,222	- -	- -
43 Interest and Penalty	466	- -	- -
44 Refund	-638	- -	- -
Total other objects	65,720,429	67,106,000	74,552,000
Total direct obligations	66,566,671	68,706,000	76,180,000

Position Data:

	1985	1986	1987
Average Salary, GM/GS positions	$23,414	$28,235	$28,588
Average Grade, GM/GS positions	9.4	9.8	9.8

RENTAL PAYMENTS AND BUILDING OPERATIONS

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

[Standard Level User Charges (USDA)] Rental Payments and Building Operations:

1 For payment of [Standard Level User Charges] space rental and related
costs pursuant to Public Law 92-313 for programs and activities of the
Department of Agriculture which are included in this Act, [$53,454,000]
$57,380,000: Provided, That in the event an agency within the Department
of Agriculture should require modification of space needs, the Secretary
of Agriculture may transfer a share of that agency's appropriation made
available by this Act to this appropriation, or may transfer a share of
this appropriation to that agency's appropriation, but such transfers
shall not exceed 10 per centum of the funds made available for [Standard
2 Level User Charges] space rental and related costs to or from this
account.

[Building Operations and Maintenance]

3 $18,800,000 is hereby appropriated to the Department for [For] the operation, maintenance, and repair of the Washington, D.C. Agriculture building complex pursuant to the delegation of authority from the Administrator of General Services authorized by 40 U.S.C. 486 [$17,800,000] (7 U.S.C. 2201, 2202,2208.)

The first and second change reflect the name change from "standard level user charges" to space rental and related costs. This change coincides with the decision of the General Services Administration to change the name used to describe its services from "SLUC" to "RENT." The more general description proposed by the Department would obviate the need to change the account title and language should the General Services Administration change the name in the future.

The third change deletes a separate account for building operations and maintenance. The funds appropriated for building operations and maintenance will still be specifically identified in the appropriations language.

RENTAL PAYMENTS AND BUILDING OPERATIONS

Appropriation Act, 1986	$71,254,000
Budget Estimate, 1987	76,180,000
Increase in Appropriation	+4,926,000

Adjustments in 1986:		
Appropriation Act, 1986	$71,254,000	
Less Pro-Rata Reduction, P.L. 99-190	-428,000	
Net Appropriation	70,826,000	
Funds transferred to SCS, FmHA and ASCS for field leases a/	-2,120,000	
Adjusted Base for 1986		68,706,000
Budget Estimate, 1987		76,180,000
Increase from adjusted 1986		+7,474,000

a/ In May 1985, the General Services Administration delegated to USDA the authority for administering leases for field installations. In keeping with the autonomy of field offices, funds for these leases are transferred directly to the appropriations for the agencies involved.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1986 Estimated	Program Changes	1987 Estimated
Rental Payments to GSA	$51,013,000	+$6,367,000	$57,380,000
Building Operations	17,693,000	+1,107,000	18,800,000
Total Available	68,706,000	+7,474,000	76,180,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

Project	1985 Actual Amount	1985 Actual Staff Years	1986 Estimated Amount	1986 Estimated Staff Years	Increase	1987 Estimated Amount	1987 Estimated Staff Years
1. Rental Payments	$52,766,671	- -	$51,013,000	- -	+$6,367,000	$57,380,000	- -
2. Building Operations	$13,800,000	32	$17,693,000	52	+$1,107,000	$18,800,000	52
Unobligated balance	327,329	- -	- -	- -	- -	- -	- -
Total available estimate	$66,894,000	32	$68,706,000	52	$7,474,000	$76,180,000	52
Transfer to:							
SCS	+360,000		+1,022,000				
FmHA	+233,000		+900,000				
ASCS	+ 50,000		+198,000				
Total Appropriation	67,537,000	32	70,826,000				

EXPLANATION OF PROGRAM

This appropriation provides funding for the following activities:

Rental Payments to GSA. The fiscal year 1983 Agriculture Appropriations Act (P.L. 97-370) established a single appropriation account to consolidate most of the Department's rental payments paid to the General Services Administration (GSA). This activity provides only partial funding for the Department to pay GSA for costs incurred for rental of occupied space. It does not provide funding to cover space costs incurred in other funding areas such as trust funds, the Working Capital Fund and other non-appropriated funds. Therefore, the amount in this account represents only the appropriated portion of the total Departmental charges for rent payments paid to the GSA for all agencies and staff offices of the Department except the Forest Service.

Building Operations. On October 1, 1984, GSA delegated the operations and maintenance function for the buildings in the D.C. complex to the Department. This activity provides Departmental staff and support services to operate, maintain and repair the five buildings in the D.C. complex. GSA retains responsibility for major non-recurring repairs.

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of $6,367,000 for rental payments to GSA.

Need for Change. Increased costs are attributable to rate increases as provided by GSA in selected geographic regions applied to the existing inventory of space that will be occupied through September 30, 1987.

Nature of Change. The additional funds would allow the Department to maintain an inventory of approximately 8 million square feet of space nationwide.

(2) An increase of $1,107,000 for building operations.

Need for Change. The Department is requesting additional funds for the continuation of the major and minor repairs programs. These programs are necessary to reduce the over $70 million backlog of repairs and renovations inherited from GSA when USDA assumed responsibility for buildings operations and maintenance. Also these repairs are necessary to bring the D.C. complex up to code specifications.

Nature of Change. These funds would allow the Department to undertake additional repairs, continue the recurring repair program, and finance other increases related to utilities, service contracts, equipment, and supplies and materials.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS

1985 and Estimated 1986 and 1987

	1985		1986		1987	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Washington, D.C.....	$66,566,671	32	68,706,000	52	76,180,000	52

Rental Payments and Building Operations

Status of Program

RENTAL PAYMENTS TO GSA

This appropriation was established by the Agriculture, Rural Development and Related Agencies Appropriations Act of 1983 to finance the appropriated portion of the payment of the General Services Administration's fees formerly known as Standard Level User Charges, or "SLUC" for rental of leased space and related services to all USDA agencies except the Forest Service which is funded in another appropriation bill.

Selected Examples of Recent Progress:

Space Reduction Initiatives: In June 1985 the General Services Administration (GSA) published Federal Property Management Temporary Regulation D-71. This regulation combined the former D-68 and D-70 regulations into one which requires all Federal Agencies to develop a nationwide work space management plan. The Department has developed a plan to achieve an office utilization rate of 135 square feet per person in all owned, leased and GSA space by 1990. The plan includes an FY 1986 target for the release of nearly 250,000 square feet of GSA-assigned space with an estimated $2.5 million annual savings. In addition, more than 50,000 square feet of directly leased space with an estimated annual value of $441,000 will be vacated by the end of FY 1987.

BUILDING OPERATIONS AND MAINTENANCE

Effective October 1, 1984, the authority to operate, maintain and repair the Washington D.C. Headquarters complex was delegated to USDA. During FY 1985, over $2 million in repairs were completed, and there was a major effort to upgrade preventive maintenance of equipment and respond to occupant needs. In FY 1986, USDA will implement a long range plan designed to correct serious building deterioration in the D. C. complex during the next two years. This effort will not only upgrade the quality of certain Headquarters space to an acceptable level but also will assist in the effort to achieve further Agency consolidation and better use of Headquarters workspace.

Current Activities

1. Renovation and improvement of common space areas such as the Jefferson Auditorium, Administration Building, patio and corridor areas.

2. Upgrading and restoration of badly deteriorated restroom facilities.

3. Replacement of numerous sections of leaking and deteriorated roofing in the complex.

4. Upgrading of safety in corridors and stairwells with emergency lighting and tread protection on stairs.

5. Development of master plans for all five Headquarters buildings to provide a coordinated effort in improving the complex.

6. Increased emphasis on service to occupants through responsive employees and better administration of service contracts.

7. Building Renovation and Space Utilization. In continuation of the improving USDA space utilization in the D.C. Complex, a plan for renovation of the Auditors Building has been developed and will begin in FY 1986. The $10 million renovation, to be completed in FY 1988, will provide an open office environment allowing for a space utilization rate of about 110 square feet per person. The improved utilization will allow for consolidation of Forest Service Headquarters activities in the building and the release of 79,000 square feet of high cost commercial space in Rosslyn.

Selected Examples of Recent Progress

--Expansion of the minor repair program to upgrade and improve service on elevators, electrical and mechanical systems, anticipated over 400 projects in this area.

--Reduced electrical consumption and cost by the installation of new energy efficient light fixtures with light sensors that shut off lights when not needed.

--Developed and initiated a plan to address the $70,000,000 back-log of major repairs that existed when the authority was delegated to USDA.

--Renegotiated the payment structure of service contracts in a manner that places emphasis on proactive servicing of building occupants and timely identification and response to operations and maintenance problems.

--Increased preventive maintenance and completed a number of major repairs, which have greatly improved the operation of elevators and reduced potential safety hazards.

ADVISORY COMMITTEES

Purpose Statement

The Federal Advisory Committee Act (P.L. 92-463) was passed in 1972 to recognize that committees and similar groups provide a useful and beneficial means of furnishing expert advice to officers of the Federal Government. The Assistant Secretary for Administration is the principal Department Officer responsible for performing functions and coordinating activities of the Act.

The Agriculture, Rural Development and Related Agencies Appropriations Act of 1983 consolidated all USDA advisory committee funds, except those in the Forest Service and those paid from user fees, in a separate appropriation.

ADVISORY COMMITTEES

Available Funds and Staff-Years

1985 Actual and Estimated 1986 and 1987

ITEM	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Advisory Committees ...	$1,385,000	14	$1,315,000	14	$1,323,000	14
Total, Advisory Committees ...	1,385,000	14	1,315,000	14	1,323,000	14

ADVISORY COMMITTEES

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

		1985	1986	1987
Personnel Compensation:				
11	Total personnel compensation	$464,417	$465,000	$468,000
12	Total personnel benefits	40,570	47,000	47,000
	Total Personnel Comp. & Benefits	504,987	512,000	515,000
Other Objects:				
21	Travel	443,838	508,000	512,000
22	Transportation	1,189	4,000	4,000
23.2	Communication, utilities and other rents	1,889	11,000	11,000
24	Printing and reproduction ...	5,615	32,000	32,000
25	Other Services	304,398	225,000	226,000
26	Supplies and materials	36,770	18,000	18,000
31	Equipment	6,409	5,000	5,000
	Total other objects	800,108	803,000	811,000
	Total direct obligations	$1,305,095	$1,315,000	$1,323,000
Position Data:				
	Average Salary, GS positions	$33,173	$33,214	$33,428
	Average Grade, GS positions	10.03	10.39	10.90

ADVISORY COMMITTEES

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Advisory Committees:

For necessary expenses for activities of Advisory Committees of the Department of Agriculture which are included in this Act, $1,323,000: Provided, That no other funds in this Act shall be available to the Department of Agriculture for support of activities of Advisory Committees.

ADVISORY COMMITTEES

Appropriation Act, 1986	$1,323,000
Less Pro-Rata Reduction, P.L. 99-190	-8,000
Net Appropriation	1,315,000
Budget Estimate, 1987	1,323,000
Increase in Appropriation	+8,000

SUMMARY OF INCREASES AND DECREASES
(On basis of appropriation)

Item of Change	1986 Estimated	Program Change	1987 Estimated
USDA Advisory Committees	$1,315,000	+8,000	$1,323,000

PROJECT STATEMENT
(On basis of appropriation)

Project	1985 Actual		1986 Estimated		Increase	1987 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Advisory Committees	$1,305,095	14	$1,315,000	14	+$8,000 (1)	$1,323,000	14
Unobligated Balance	79,905	--	--	--	--	--	--
Total, Appropriation	1,385,000	14	1,315,000	14	+8,000 (1)	1,323,000	14

EXPLANATION OF PROGRAM

The appropriation provides for direction and financial support of all authorized Department of Agriculture advisory committee activities other than those included in the Forest Service or financed by user fees or other funds.

The Federal Advisory Committee Act (P.L. 92-463) was passed in 1972 to recognize that committees and similar groups provide a useful and beneficial means of furnishing expert advice to officers of the Federal Government. In establishing the Act, Congress declared that: committees should be restricted in number to only those essential to provide the necessary expert advice in specialty areas; uniform standards and procedures should govern the establishment, operation, administration and duration of the committees; and Congress should be kept informed of the number and cost of committees.

The FY 1983 Agriculture, Rural Development and Related Agencies Appropriations Act provided a consolidated account for this purpose. Under this consolidated account 30 committees are currently planned for fiscal year 1987. Nine are established by statute, and the remaining 21 are established by the Department, either independently, or upon the recommendation of Congress.

Each committee has a charter that is resubmitted every two years, reviewed and approved by USDA's Committee Management Officer and then filed with the staffs of the House and Senate Agriculture Committees. In addition, an annual report is compiled which provides an explanation of the work completed in the prior year. The report provides the basis for a comprehensive review of committee activities. The Committee Management Officer is the primary person responsible for recommending the renewal or termination of a committee. However, if a committee has been established by statute, legislation is required to have it abolished.

ADVISORY COMMITTEES

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of $8,000 for increased operating costs. Resource estimates for the Department's Advisory Committees by major policy area are provided in the following table.

RESOURCE ESTIMATES FOR USDA'S ADVISORY COMMITTEES

POLICY AREA AND COMMITTEE TITLE	1985 ACTUAL		1986 ESTIMATED		1987 ESTIMATED	
	MEMBERS	FUNDS	MEMBERS	FUNDS	MEMBERS	FUNDS
Food and Consumer Services:						
National Advisory Councils on:						
Child Nutrition	19	$30,192	19	$30,369	—	1/
Maternal, Infant and Fetal Nutrition	21	34,744	21	31,531	—	1/
Joint Nutrition Monitoring Evaluation Committee	6	50,000	6	33,100	—	—
Dietary Guidelines Advisory Committee	9	8,519	—	—	—	—
Total	55	123,455	46	95,000	—	—
Science and Education:						
Nat. Ag. Research & Extension Users Adv. Board	25	120,236	25	199,300	25	205,000
National Arboretum Advisory Council	16	8,519	16	11,200	16	11,670
Human Nutrition Board of Scientific Counselors	15	20,287	17	36,500	17	36,470
National Plant Genetic Resources Board	18	19,121	19	20,000	19	20,319
Policy Adv. Comm. for S & E Research Grants Program	17	10,420	17	18,200	17	18,900
Animal Health Science Research Advisory Board	12	59,100	12	19,300	12	17,200
Cooperative Forestry Research Advisory Council	16	13,500	16	40,100	16	41,200
Tech. Adv. Comm. for S & E Grants Program	189	365,914	—	361,373	—	356,990
Committee of Nine	9	28,600	9	29,800	9	30,500
Total	317	645,696	131	735,773	131	738,239
Marketing and Inspection Services:						
Grain Standards Act Advisory Committee	12	34,515	12	50,601	12	51,694
Nat. Adv. Comm. on Meat & Poultry Inspection	21	25,840	21	25,000	21	25,597
Advisory Committees on:						
Foreign Animal and Poultry Diseases	20	15,137	20	27,984	20	27,989
Swine Health Protection	20	9,295	20	12,760	20	13,800
Instruments & Standards for Cotton	14	13,575	14	25,472	14	26,285
Gen. Conference Comm. of the Nat. Poultry Imp. Plan	10	6,136	10	11,984	10	7,000
Plant Variety Protection Board	17	12,730	17	6,360	17	6,551
Total	114	117,227	114	160,161	114	158,916
International Affairs and Commodity Programs:						
Agricultural Policy Advisory Committee for Trade	51	14,000	51	14,000	51	14,000
Technical Advisory Committees for Trade in:						
Cotton	12	13,000	13	13,000	13	13,000
Fruits & Vegetables	27	14,000	27	13,000	27	13,000
Grain & Feed	18	13,000	20	14,000	20	14,000
Livestock & Livestock Products	19	14,000	22	14,000	22	14,000
Oilseeds & Oilseed Products	15	13,000	15	13,000	15	13,000
Poultry & Eggs	13	13,000	15	13,000	15	13,000
Tobacco	11	13,000	13	13,000	13	13,000
Dairy Products	17	13,000	18	13,000	18	13,000
Agribusiness Promotion Council	30	14,525	30	14,000	30	14,000
Agricultural Export Enhancement Advisory Group	8	1,636	8	10,000	8	10,000
Total	221	136,161	232	144,000	232	144,000
Small Community and Rural Development:						
National Advisory Council on Rural Development	—	—	58	85,600	58	85,600
Economics:						
National Ag. Cost of Production Standards Rev. Bd.	46	22,964	46	30,000	46	30,000
Departmental Administration:						
Citizen's Advisory Committee on Equal Employment	24	58,516	24	64,466	24	66,245
Agricultural Structures Planning Task Force	17	13,149	—	—	—	—
General Management and Administrative Costs	—	78,595	—	—	—	—
Undistributed Committee Expenses		109,332				
New Requirements and Contingencies	—					100,000
TOTAL, Advisory Committees	794	$1,305,095	651	$1,315,000	605	$1,323,000

1/ The Department is recommending that the sections of the act authorizing this committee be repealed.

The Department is re-evaluating distribution of Advisory Committee funds based on requirements of the Agriculture, Food, Trade, and Conservation Act of 1985, P.L. 99-198, and the Balanced Budget and Emergency Deficit Reduction Act of 1985, P.L. 99-177. An updated table of committee estimates will be provided when revised allocations have been determined.

ADVISORY COMMITTEES

STATUS OF PROGRAM

The appropriation provides for direction and financial support of all authorized Department of Agriculture Advisory Committee activities other than those included in the Forest Service and those financed from user fees. The Assistant Secretary for Administration is the principal Committee Management Officer and provides the policy guidance for the establishment and continuation of committees.

The charters for Advisory Committees are examined on a biennial basis. At that time a review is made of their activities and a determination is made of whether or not to continue their existence.

Information regarding activities is as follows:

FOOD AND CONSUMER SERVICES:

National Advisory Council on Child Nutrition

Section 15 of the National School Lunch Act created the National Advisory Council on Child Nutrition and authorized the Secretary of Agriculture to appoint its 19 members. The purpose of this Council is to study the operation of programs carried out under the National School Lunch Act, the Child Nutrition Act of 1966, and any related Act under which meals are provided for children to determine how such programs may be improved. The Council is required by law to report its recommendations for changes to the President and Congress every two years.

The Council meeting for fiscal year 1986 was held on October 22, 23, and 24, 1985, to brief Council members on current program issues and to obtain Council recommendations. Twelve non-USDA Council members and four USDA members attended.

Legislation is currently proposed by the Administration to eliminate this Council. Over the past five years the work of the Council has been made less necessary by increasing dialogue between Federal and State cooperators, as well as a significant increase in the amount of program analysis and evaluation carried out by the Food and Nutrition Service.

National Advisory Council on Maternal, Infant, and Fetal Nutrition

Section 17 of the Child Nutrition Act of 1966, as amended by P.L. 95-627, November 10, 1978, provides for a National Advisory Council on Maternal, Infant, and Fetal Nutrition and authorizes the Secretary of Agriculture to appoint Council members. This 21-member Council makes a continuing study of the operation of the Special Supplemental Food Program for Women, Infants, and Children (WIC) and related programs, such as the Commodity Supplemental Food Program (CSFP), to determine how these programs may be improved. The Council is required by law to report its recommendations for changes to the President and Congress every two years.

A meeting was held on September 25, 26, and 27, 1985, in Alexandria, Virginia. Eleven Council members, including nine non-USDA members and two USDA members, met to discuss program issues and to develop preliminary recommendations for the Council's 1986 report to the President and Congress. If necessary, a meeting will be held in late spring of 1986 to draft the Council's 1986 report to the President and Congress, which should be submitted in October 1986.

The Administration has proposed termination of the Council. Over the years, its work has been made less necessary by increasing dialogue between Federal and State cooperators, as well as a significant increase in the amount of program analysis and evaluation carried out by the Food and Nutrition Service.

Joint Nutrition Monitoring Evaluation Committee

Departmental Regulation 1043-20, dated October 1983, established the Joint Nutrition Monitoring Evaluation Committee. The charter to reestablish the Committee is pending clearance by the General Services Administration. The Committee's purpose is to evaluate the findings of the Nationwide Food Consumption Survey (NFCS), the National Health and Nutrition Examination Survey (NHANES), and other Federal nutrition monitoring efforts and to report to the Congress on the nutritional status of the general population and special groups and to identify deficiencies and special areas of need in the system. The Committee includes USDA's Assistant Secretary for Food and Consumer Services, the Assistant Secretary for Health of the Department of Health and Human Services (HHS) and four experts in the field of nutrition monitoring from the academic community. Staff support is provided by both Departments.

Meetings were held on April 29, 30, and May 1, 1985, in the Federal Building in Hyattsville, Maryland. Approximately 50 people, mostly USDA or HHS staff, attended the meeting. The Committee discussed progress and resolved differences before submitting a draft report on the Nutritional status of the U.S. population for Departmental review. On July 5, 1985, copies of the draft report went to the two Departments for review. Comments have been received from the Departments and are now being resolved by the Committee and Departmental Staffs. A final draft is expected to be submitted to Congress by the Secretaries of Agriculture and Health and Human Services by the end of calendar year 1985.

Additional meetings are planned for fiscal year 1986 to plan further dissemenation of the information and to consider possible approaches to future reports. Termination of the Committee is proposed at the end of fiscal year 1986.

Dietary Guidelines Advisory Committee

Departmental Regulation 1043-14, of February 23, 1983, established the Dietary Guidelines Advisory Committee. Its purpose was to review comments received by the Departments of Agriculture and Health and Human Services (HHS) on the publication, "Nutrition and Your Health: Dietary Guidelines for Americans," and to make recommendations to the Departments on the content of this publication. The Committee was composed of nine recognized experts in the field of human nutrition. Three members were appointed by USDA, three by HHS, and three were selected from a list submitted by the National Academy of Sciences.

During fiscal year 1985 one meeting was held in Washington, D.C. on December 19, 1984. Approximately 50 people, Government employees, representatives of food industry groups, nutrition professionals and representatives of nutrition advocacy organizations, attended the meeting. The purpose of the meeting was t develop a report on the scientific accuracy of the contents of the 1980 version of the Dietary Guidelines publication.

The final report, entitled: "Report of the Dietary Guidelines Advisory Committee on the Dietary Guidelines for Americans" was issued April 10, 1985. Prior to that date the Committee was terminated. A press conference was held in September 1985 to release the new publication, "Nutrition and Your Health: Dietary Guidelines for Americans" which resulted from the Committee's report and recommendations to the Departments of Agriculture and Health and Human Services.

SCIENCE AND EDUCATION:

National Agricultural Research and Extension Users Advisory Board

The National Agricultural Research and Extension Users Advisory Board (UAB) was established under Title XIV of the Extension and Teaching Policy Act of 1977, as amended by the Agricultural and Food Act of 1981, P.L. 97-98. The UAB has 25 members representing the multiple interests of intended beneficiaries of the national agriculture science and education system. The Board is responsible for: (1) reviewing policies, plans, and goals of research and extension education programs within Federal and State agencies, colleges, and universities; (2) assessing the extent of agricultural research and extension activities within the private sector and the nature of its relationship with Federally supported agricultural research and extension, and (3) serving as consultant to the Secretary of Agriculture by reviewing short-and long-term national policies, priorities, and strategies for agricultural research and extension.

The UAB conducts at least one meeting every four month period. Two formal meetings are devoted to the preparation of the Board's two statutorily mandated reports on program priorities and an appraisal of the President's proposed budget for the food and agricultural sciences. In addition, ad hoc workgroup sessions are held to focus on topics for detailed analysis by UAB members.

In FY 1985, the UAB met four times with two of these meetings held conjunctively with the Joint Council on Food and Agricultural Sciences. The purpose of the November 27-28, 1984 UAB and Joint Council meeting was to discuss the efficiency of agricultural production in order to increase the competitiveness of agricultural commodities in international markets and to improve the profitability of farm operations. This meeting was attended by 19 UAB members.

The budget review meeting was attended by 22 UAB members in Washington, D.C., on February 4-6, 1985. The Board prepared a report assessing the Executive Budget request for agricultural research and extension which it submitted for Presidential and Congressional consideration. The members also met with House and Senate staffers for a briefing on UAB recommendations and priorities for the next fiscal year.

On May 6-8, 1985, 19 UAB members met in Madison, Wisconsin to review dairy, forestry, animal and plant biotechnology, integrated pest management, nutrition, and groundwater quality programs at the University of Wisconsin. Discussion and recommendations from this meeting will be included in a program priorities report.

On August 7, 1985, the Board met in Denver, Colorado to visit Colorado State University's irrigation research center, animal reproduction lab, and soil resource information program. The 14 UAB members also toured a 3,000-acre irrigated commercial produce farm, heard a presentation from a local rancher on present and future use of federal land, and visited the ARS arthropod-borne animal diseases research laboratory. On August 8, 1985, the Joint Council and UAB held a joint session on the exchange and enhancement of technology between the public and private sector and another session on how research and extension systems are responding to priorities recommended by the UAB and the Joint Council. The background information received at this meeting will help the Board identify issues and advocate necessary action in UAB reports.

The UAB held its first FY 1986 meeting on November 6-8, 1985, in Washington, D.C. The purpose of this meeting was to orient six new members and to hear from administrators of public and private programs conducting international agricultural research. The 17 UAB members attending this meeting also reviewed ARS programs at the research center in Beltsville, Md. and joined the Joint Council for a discussion and demonstration of new applications of electronic technology in agriculture. Other meetings scheduled for FY 1986 are the annual budget review meeting on February 24-26, 1986, and the program priorities meetings on May 7-9, 1986, and August 6-8, 1986.

National Arboretum Advisory Council

The National Arboretum Advisory Council was established under the authority of Chapter 505, P.L. 69-799, March 1927, and Departmental Regulation 1042-75, November 1983, for the purpose of counseling and advising the Department on the Arboretum's most critical needs and suggesting methods of accomplishing immediate and long-term objectives in research and public education programs. The Council assists the Department in meeting the challenges imposed on the

Arboretum due to population growth, land use, and other social factors. Opportunities for growth and development are explored as well as relationships with other similar organizations throughout the United States.

Meetings are planned for both fiscal years 1986 and 1987 to evaluate existing programs and activities, review future plans, and make recommendations on the future scope and direction of Arboretum programs on trees and other plant life.

Human Nutrition Board of Scientific Counselors

The Secretary of Agriculture initially established the Human Nutrition Board of Scientific Counselors on April 9, 1981, in accordance with provisions of the Conference Report No. 95-1579, which accompanied H.R. 13125, September 18, 1978, on The FY 1979 Appropriations Act for the Department of Agriculture. The Board was reestablished by the Secretary on December 15, 1983. Its purpose is to provide advice to the Secretary on program direction, priorities, scope of activities, and quality of the Department's human nutrition research. The membership includes scientists with specialties in food science, clinical nutrition, pediatrics, gastroenterology, physiology, biochemistry, experimental nutrition, and nutrition education.

The Board met on February 6-7, 1985, at USDA's Human Nutrition Research Center in Beltsville, Maryland. Fourteen of the fifteen members were present. The members, together with other invited scientists, visited the Center's five research laboratories, reviewed the ongoing research, and prepared evaluation reports.

The Task Group on "Solutions to Human Nutrition Problems Through Changes in the Agricultural/Food System" worked with the Agricultural Research Service and Cornell University staff in a coordinated series of three workshops. These workshops were held on Plant Production at the U.S. Plant, Soil and Nutrition Laboratory, Ithaca, New York; Animal Production at Beltsville, Maryland; and Postharvest Research at Purdue University, W. Lafayette, Indiana. A second Task Group on Implications of the RDA's and Dietary Guidelines has examined the broad problem of "What Can USDA Do To Strengthen Nutrition Education of the Public?" At a meeting on September 12, 1985, this Task Group developed some specific recommendations concerning policy and programmatic changes. A third Task Group has reviewed the research needs in the area of nutrient composition information.

Reports from these task groups will be considered at the meeting of the Board to be held on January 9-10, 1986.

National Plant Genetic Resources Board

The National Plant Genetic Resources Board is authorized by, and serves at the discretion of, the Secretary of Agriculture. It was established on July 3, 1975, and is composed of 18 members with diverse capabilities in plant genetic resources management and utilization. The Board assesses national needs and identifies high-priority programs for conserving, utilizing, and distributing plant genetic resources, including the collection, maintenance and description for the Secretary of Agriculture and officers of the National Association of State Universities and Land-Grant Colleges. The program's aim is to ensure continued progress in maintaining the high level of productivity of our major crops for domestic consumption and exports.

Policy Advisory Committee for the Science and Education Research Grants Program

The Policy Advisory Committee for the Science and Education Research Grants Program is authorized by and serves at the discretion of the Secretary of Agriculture. It was established on February 26, 1982, and its 17 members include representatives from organizations such as the National Science Foundation, the National Research Council-National Academy of Sciences, the Departments of Health and Human Services, Energy, and Agriculture, the Experiment Station Committee on Organization and Policy, as well as a scientist from private industry, and five nationally recognized scientists representing Land-Grant and non-Land-Grant institutions. Committee functions concern administration of the Science and Education Research Grants Program to assure that research is carried out on the highest priority research areas and has the widest participation by qualified scientists.

On May 8, and September 4, 1985, 24 and 25 persons, respectively, met with the Administrator, Office of Grants and Program Systems, to provide advice on: policy matters related to the Competitive Research Grants program for fiscal year 1985; research needs in areas considered for grant subsidies; and the relationship between programs funded by other agencies. The program was also assessed in relation to progress in funded areas, recommended shifts in resources and ways to improve guidelines and evaluation procedures.

Animal Health Science Research Advisory Board

The Animal Health Science Research Advisory Board is authorized by Section 1432 of Public Law 95-113, the National Agriculture Research, Extension, and Teaching Policy Act of 1977, as amended. It was first established on February 6, 1978. It is composed of 12 members consisting of one representative from the Agricultural Research Service, the Cooperative State Research Service (CSRS), and the Animal and Plant Health Inspection Service of USDA: a representative from the Center for Veterinary Medicine, Food and Drug Administration of the Department of Health and Human Services, two representatives from accredited colleges of veterinary medicine, two from the State Agricultural Experiment Stations; and three representatives from national livestock and poultry organizations. The Board consults with and advises the Secretary of Agriculture on the implementation of animal health and disease research programs and recommends priorities in animal health and disease research.

The Board met in Washington, D.C., on September 18, 1985, to review the status and progress of animal health research programs in the CSRS to make recommendations on the administration of these programs and to provide priorities for animal health research for fiscal year 1986. All members were present. The Board reviewed animal health research priorities and developed guidelines to be followed under the CSRS Animal Health Special Research Grant program for fiscal year 1986. These guidelines include the specific livestock diseases that should be studied under the program and the percent of funds that should be allocated to each. It recommended that a special category for minor animal species should not be established under the program and that the number of eligible sheep diseases should be limited to the five of highest priority. The Board reviewed progress being made on the National Academy of Sciences study of CSRS animal health programs and the status of the Minor Use Animal Drug Clearance Program. The Board added its support to the concept of a balanced program of formula and competitive animal health research and recommended that implementation of this concept be investigated in new legislation. The Board will hold its next annual meeting at Ames, Iowa, at the National Animal Disease Center and the National Veterinary Services Laboratory.

Technical Advisory Committee for Science and Education Research Grants Program

The Technical Advisory Committee for Science and Education Research Grants Program is authorized by and serves at the discretion of the Secretary of Agriculture. The Committtee advises the Secretary of the relative technical and scientific merits of research grant applications submitted to the Department. The Committee consists of scientists that are recognized by their peers in the areas of agricultural research included under the Science and Education Grants Programs, with consideration given to field of specialization, and geographic and institutional distribution. Committee members evaluate research proposals and recommend proposals that should be selected for research grants awards. Guidelines describing program requirements and application procedures for these competitive-type research programs were published in the Federal Register. Between March and August, twenty-five panels evaluated research emphasis as follows:

	Number of Proposals Submitted	Annual Request	Number of Grants Awarded	Amount of Awards
Competitive Research Grants......	2,629	$603,153,895	449	$44,173,800
Special Research Grants (Competitively awarded).............	577	63,433,088	61	6,739,385

Cooperative Forestry Research Advisory Council

The Cooperative Forestry Research Advisory Council is authorized by Section 1441(c), P. L. 98-98, The National Agricultural Research, Extension and Teaching Policy Act Amendments of 1981. It was established on December 22, 1982, and is composed of not fewer than 16 members representing Federal and State agencies concerned with developing and utilizing the Nation's forest resources, the forest industries, volunteer public groups concerned with forests and related natural resources, and representatives of the forestry schools of the State-certified eligible institutions and State agricultural experiment stations that receive funds under the McIntire-Stennis Cooperative Forestry Research Act. The Council submits a report to the Secretary of Agriculture on regional and national planning and coordination of forestry research within the Federal and State agencies, forestry schools, and the forest industries, and advises the Secretary on national and institutional administration and management of the forestry research programs.

Committee of Nine

The Committee of Nine is authorized under the provisions of the Hatch Act of 1887, and the Agricultural Experiment Stations Act of August 11, 1955, as amended, 7 U.S.C. 361a-i. It was first established on December 15, 1946. Membership includes eight Agricultural experiment station administrators and one administrator of home economics research. The Committee recommends cooperative regional projects for research in which two or more State agricultural experiment stations cooperate to solve problems that concern the agriculture of more than one State. On or before the beginning of each fiscal year, the Committee recommends a schedule for allocation of the Regional Research Fund to cooperative projects for approval by the Administrator, Cooperative State Research Service, on behalf of the Secretary of Agriculture.

The Committee holds at least three meetings annually, although special meetings may be called by the Chairperson. In fiscal year 1985 meetings were held on December 4, 1984 in St. Louis, Missouri, May 22-23, 1985 in Washington, D.C., and September 10-11, 1985 in Berkeley, California. At the May meeting, the Committee conducted an extensive review and evaluation of regional research projects in their first two years of operation to determine their progress, reinforcing stated objectives and scientific validity for such regional research. The results of the evaluation were communicated to each participating Station Director and each Project Administrative Advisor. At the September meeting, the Committee reviewed and approved the revision of the Manual for Cooperative Regional Research which provides the overall framework for cooperative regional research. All members attended the meetings.

There are approximately 250 active regional research funded projects. In fiscal year 1985, the Committee reviewed 39 new or revised regional research proposals. Of the proposals reviewed, there were 12 new, 14 revisions, and 29 extensions recommended for approval. The Committee recommended that 13 of the 39 proposals reviewed be deferred and resubmitted after the Committee of Nine concerns had been addressed by the technical committees. The Committee scrutinized both the Interregional (IR) and Regional off-the-top budget submissions. After the Committee unanimously agreed upon the budget submissions, the fiscal year IR and Regional budgets were recommended for approval.

The Committee did not meet during fiscal year 1985. Future meetings may be required, depending upon the availability of grant funds.

INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS:

Agribusiness Promotion Council

The Agribusiness Promotion Council (APC) was established on October 28, 1982, by Departmental Regulation to assist USDA in carrying out the agricultural development aspects of President Reagan's Caribbean Basin Initiative, and to advise USDA on strategies and policies for facilitating agribusiness and improving the investment climate in the Caribbean Basin countries. Further, the Council was charged with providing advice on the operation of an international Agribusiness Information Center for the purpose of serving U.S. firms interested in agricultural business opportunities in the Caribbean Basin. The Council also advised USDA on methods of encouraging U.S. agribusiness participation in activities contributing to economic growth through agricultural development in Caribbean island and Central American countries. The Council's membership was approximately 30 U.S. private sector agribusiness leaders appointed by the Secretary of Agriculture.

The first meeting of APC was held on September 16, 1985 in New Orleans, Louisiana. The Council submitted its final report to the Secretary. It contained 11 recommendations as well as a summary of accomplishments. During fiscal year 1985 USDA implemented many of these recommendations. In particular, USDA organized and implemented an Agricultural Marketing Workshop for the Eastern Caribbean in April 1985, and then held one for the Caribbean Basin in September 1985. These workshops brought those involved in marketing from the Caribbean Basin and U.S. together with USDA and U.S. private sector experts to impart information on import requirements and post-harvest handling for the participants from the Caribbean Basin countries and to bring Caribbean Basin and U.S. agriculturalists together to form contacts and negotiate two-way trade arrangements and begin negotiations on joint ventures. Exact figures as to the results are not available; however, evaluation results show that both Caribbean Basin and U.S. participants in these marketing workshops found them highly productive for their businesses. These workshops focused on non-traditional products from the Caribbean Basin countries and on products that could be provided from the Caribbean Basin to the U.S. during off-season periods for the United States.

"Agricultural Marketing Handbook for Caribbean Basin Products, " a product of the APC study, was updated and distributed by USDA for the second time, and also an unofficial Spanish translation was provided in conjunction with the Inter-American Institute on Cooperation in Agriculture (IICA). USDA continues to operate the information service which the APC recommended.

Agricultural Policy Advisory Committee for Trade

Agricultural Technical Advisory Committees for Trade (8)

The Trade Act of 1974, as amended by the Trade Agreements Act of 1979, authorized the President, through the United States Trade Representative (USTR) and the Secretary of Agriculture, to establish private sector advisory committees for the purpose of seeking information and advice from representative elements of the private sector on negotiating objectives of bargaining positions before entering into a trade agreement, the operation of any trade agreement once entered into, and other matters arising in connection with the administration of the trade policy of the United States.

Under this authority, an Agricultural Policy Advisory Committee for Trade (APAC) and several Agricultural Technical Advisory Committees for Trade (ATACs) in agricultural commodities (cotton, dairy products, fruits and vegetables, grain and feed, livestock and livestock products, oilseeds and products, poultry and eggs, and tobacco) were established. The APAC provides advice regarding overall agricultural trade issues, and the ATACS provide detailed technical advice and information on their respective commodities. Each of these committees is composed of various agricultural interests such as farmers, farm and commodity organizations, processors, and traders, etc.

Meetings occur only when there is sufficient need for information and advice. Reports are required only when the U.S. Government enters into a trade agreement; otherwise, the advice and information received by the Government is contained in transcripts from the meetings.

The Committees were inactive much of the year as the Administration worked to prepare for agreement to begin new Multilateral Trade Negotiations (MTN). More meetings are expected to be held as the preparations for the new round of MTNs begin in fiscal year 1986.

Formal reports are required of the Committees only when the U.S. enters into formal trade agreements, and there were no formal trade agreements. A couple of consultations were held at the USTR on certain issues, with one for the Committee chairmen only. Additionally, the Committees were asked for advice on: (a) standards, testing, and certification trade problems with the EC, Federal Republic of Germany, United Kingdom, France, and Canada (b) harmonized system tariff schedules; (c) Indonesian food registration; (d) U.S.-Israel Free Trade Agreement; (e) views on U.S.-Canadian Trade Declaration; (f) views for preparing list of U.S. Requests for Brazilian Import Legislation; (g) interim regulations before adoption of administrative regulations governing operation of GSP program; (h) U.S. objectives for a new round of multilateral trade negotiations; (i) draft proposals for GATT Standards Code 3-year review; and (j) significant barriers to U.S. exports and direct investment.

Agricultural Export Enhancement Advisory Group

In accordance with USDA Departmental Regulation 1043-24, the Agricultural Export Enhancement Advisory Group was established on August 7, 1985 to provide advice on the administration of the Agricultural Export Enhancement Program, which was instituted in May 1985 to expand export sales of specific U.S. agricultural commodities in targeted markets. The program made $2 billion worth of agricultural commodities owned by the Commodity Credit Corporation available to U.S. exporters as a bonus. Objectives of the Export Enhancement Program are to increase exports of U.S. farm products and to encourage trading partners to begin serious negotiation on agricultural trade problems.

The Under Secretary for International Affairs and Commodity Programs serves as chairperson of the Advisory Group, while a representative of the Foreign Agricultural Service serves as Executive Secretary. Not more than ten individuals representing agricultural producers, commodity groups, and exporters of grain, wheat, rice, cotton, and corn, serve as members.

One meeting of the Advisory Group was held on August 14, 1985 in Washington, D.C., at which approximately twenty people were in attendance. This first meeting was to update Advisory Group members on the status of the Export Enhancement Program, and to familiarize them with operating procedures and guidelines. Members introduced several topics of discussion to be addressed at later meetings.

Meetings of the Agricultural Export Enhancement Advisory Group are to be held approximatley six times each year. At each meeting, progress of the Export Enhancement Program and potential program initiatives will be evaluated.

MARKETING AND INSPECTION SERVICES:

Federal Grain Inspection Service Advisory Committee

The Federal Grain Inspection Service Advisory Committee was established by an amendment to Section 20 of the U.S. Grain Standards Act (USGSA), 7 U.S.C. 87. The purpose of the Committee is to advise the Administrator of the Federal Grain Inspection Service (FGIS) on the effective and economic implementation of the USGSA.

The Assistant Secretary for Marketing and Inspection Services chairs the Committee, the Administrator of FGIS is the Vice Chairman, and the Assistant to the Administrator is the Executive Secretary. The Secretary of Agriculture appoints 12 members who are selected from, and represent the interests of all segments of the grain industry including grain inspection and weighing agencies. The Committee generally meets four times annually, usually in Washington, D.C.

The full Committee met only twice during FY 1985. Three subcommittees of three members each met in Minneapolis, Des Moines, and Kansas City to prepare reports and recommendations for consideration by the full Committee.

During the past year, the Committee made the following recommendations: (1) that FGIS continue to support the President's Export Trade Council and individual groups that analyze and evaluate possible solutions to export trade problems; (2) that FGIS not support proposed legislation by Congressmen Neal Smith and Byron Dorgan that would prohibit the addition of nongrain-related material to the grain stream and would also prohibit the return of grain-related material, including dust, to the grain stream once it has been removed; (3) that if legislation is needed to improve export grain quality, then FGIS should support Senator Mark Andrews' proposed legislation, which would prohibit the addition of nongrain-related material to the grain stream and would also prohibit the return of grain-related material, including dust, to the grain stream once it has been removed, except to conform to contract terms; and (4) that FGIS not change the corn moisture reference standard.

National Advisory Committee on Meat and Poultry Inspection

The National Advisory Committee on Meat and Poultry Inspection was established by the Federal Meat Inspection Act and Poultry Products Inspection Act. The Secretary is required to consult with the Committee prior to: (1) issuing standards; (2) issuing regulations on the handling of livestock carcasses, parts and products by retail establishments that make purchases in interstate commerce; (3) imposing Federal recordkeeping, registration or regulatory requirements on the handling of livestock and poultry products not suitable for human consumption or renderers or other persons not engaged in interstate commerce; and (4) taking action against a State inspected plant that is endangering the public health by producing or distributing adulterated meat and poultry products. Duties of the Committee also include consulting on policies relating to Federal and State meat and poultry inspection programs, identifying means for obtaining better coordination and more uniformity among State inspection programs and between Federal and State programs, and recommending methods for assuring adequate consumer protection on such matters as inspection procedures and criteria for the formulation and labeling of meat and poultry food products. The Committee was rechartered in 1984, and eight new members were added during 1985, which raised the membership to a total of 18.

In fiscal year 1985, the Committee met on September 5 and 6. Sixteen members were in attendance. Topics discussed during the meeting included. (1) National Academy of Sciences, (2) budget, (3) food technologists, (4) legislation, (5) thelarche, (6) nitrite docket, (7) sulfa in swine, (8) trichinae control, (9) salmonella, and (10) import realignment. The Committee adopted two motions which were transmitted to the Secretary. The first motion recommended that user fees not be adopted in connection with Federal meat and poultry inspection. The second motion requested that the Committee be kept informed of the implementation of the recommendations contained in the National Academy of Sciences' report, "Meat and Poultry Inspection, the Basis for the Nation's Program."

Foreign Animal and Poultry Diseases

The purpose of the Secretary's Advisory Committee on Foreign Animal and Poultry Diseases is to advise the Secretary of Agriculture on means to prevent, suppress, control or eradicate an outbreak of foot-and-mouth disease or other destructive foreign animal or poultry diseases if such diseases should enter the United States. This Committee was reestablished by Departmental Regulation 1043-3, July 31, 1984, under the authority of the Federal Advisory Committee Act, P.L. 92-463. The duties of the Committee involve advising and counseling the Department on: (a) plans and recommendations for regulatory actions in the event of a foreign animal or poultry disease outbreak; (b) problems associated with control and/or eradication measures to cope with an outbreak of a foreign animal or poultry disease; (c) changing practices in the production and marketing of livestock and recent developments in research and regulatory veterinary medicine; (d) effective measures for informing livestock producers concerning the handling and treatment of unusual or suspicious animal or poultry disease problems; and (e) regulations pertaining to imports of animals and products.

The Committee consists of 17 appointees plus the Assistant Secretary for Marketing and Inspection Services, the Administrator of the Animal and Plant Health Inspection Service (APHIS), and a representative of APHIS to serve as Executive Secretary, for a total of 20 members. The members represent all interests concerned with contagious diseases within the livestock and poultry industries. Producers, processors, veterinarians, and scientists are included.

During fiscal year 1985 one Committee meeting was held on November 15 and 16 in Beltsville, Maryland. This meeting was called to review the report: "Long-Term Planning for Research and Diagnosis to Protect U.S. Agriculture from Foreign Animal Diseases and Ectoparasites" by a subcommittee of the Committee on Animal Health, Board of Agriculture, National Research Council (NRC). Members of this committee were also present at the meeting.

The Committee advised the Secretary on long-range planning for USDA to be prepared for foreign animal and poultry disease outbreaks. Earlier, the National Academy of Science (NAS) had been commissioned to study this problem. The United States Animal Health Association endorsed the Academy's recommendations; however, some of the changes recommended would require approval by Congress and others seemed drastic. For two days, the Committee met jointly with the members of the NAS who conducted the original study. The Advisory Committee also endorsed the recommendations of the NAS, except: (1) They recommended that the Agricultural Research Service (ARS) and the APHIS formalize a Memorandum of Understanding rather than develop a position that could exercise authority over certain parts of ARS and APHIS. (2) They believed all foreign animal disease agents except foot-and-mouth disease (FMD) should be studied and maintained in secure laboratories on the mainland, but they wanted FMD virus to stay on Plum Island.

Advisory Committee on Swine Health Protection

The Secretary's Advisory Committee on Swine Health Protection is authorized under the Swine Health Protection Act, Public Law 96-468. This 20-member Committee consults with the Secretary of Agriculture on matters concerning the Act to assure effective coordination between Federal and State programs for regulating feeding of garbage to swine. The Committee ensures that the Swine Health Protection program meets the needs of the swine industry and that the Swine Health Protection Act is effectively coordinated among State programs and between Federal and State programs.

Seventeen members represent appropriate State agriculture and animal health organizations, the food waste feeder industry, and swine producer organizations. Three members include the Assistant Secretary for Marketing and Inspection Services, who serves as Chairperson; the Administrator of the Animal and Plant Health Inspection Service (APHIS), who serves as Vice Chairperson; and the Senior Staff Veterinarian for Special Diseases, APHIS, who serves as Executive Secretary.

Seventeen Committee members met in Washington, D.C. on February 26-27, 1985. The Committee was provided information on Swine Health Protection program activities. Information included, but was not limited to, such items as (1) State status, (2) program reviews, (3) compliance activities, (4) proposed changes to 9 CFR, Part 166, (5) African swine fever (ASF)/hog cholera surveillance program activities, (6) the current status of the ASF program in Haiti, (7) port of entry inspection activities and (8) a trichinosis update which included trichina safe pork. After a review and analysis of data presented, the Committee made six recommendations to the Secretary to improve the effectiveness of the program and to ensure that concerns of the swine industry were also presented.

General Conference Committee of the National Poultry Improvement Plan

The General Conference Committee (GCC) of the National Poultry Improvement Plan (NPIP) is authorized under 9 CFR, Part 147.43, and was reestablished by Departmental Regulation No. 1043-8, dated November 5, 1984. This ten-member Committee represents cooperating State agencies and poultry industry members and serves as liaison between the poultry industry and the Department on matters pertaining to poultry health. The seven industry representatives on the GCC are elected by State and industry delegates to the Biennial NPIP Conference with one member being elected from each of the six geographical regions of the United States and one member-at-large.

Nine members of the GCC met on November 15-16, 1984, in College Park, Maryland to consider matters of importance to the administration of the NPIP. The GCC selected industry members for the Poultry Improvement Industry Advisory Council from a list of nominees submitted by official State agencies. The Council is to advise the GCC and the administrators of the Department on matters of importance to the poultry industry and to the operation of the NPIP. The GCC also made recommendations concerning guidelines for a Model State Program for Poultry Disease Prevention following a report of a special industry subcommittee formed to guide the Department concerning such a program.

The GCC met in Hyattsville, Maryland on December 11 to provide direction to the Department on a final Model State Program and the proper way to present it to the poultry industry. They made plans for the NPIP Biennial Conference and proposed changes to be considered at the Conference. The GCC will also meet in conjunction with the Biennial NPIP Conference to be held in San Francisco, California, June 24-26, 1986.

Advisory Committee on Instrument Standards for Cotton

On October 28, 1982, the Advisory Committee on Instrument Standards for Cotton was established by Departmental Regulation. The Committee was renewed on November 6, 1984. Its purpose is to advise the Secretary on the technical and scientific aspects of measuring cotton fiber quality with instruments and to make recommendations on the development and application of appropriate standards, calibration and measurement procedures. In addition to providing technical advice and assistance, the Committee enhances communication between USDA and the cotton industry. The Committee consists of 14 members from various segments of the cotton industry.

One Committee meeting was held in Fort Mill, South Carolina, on September 11, 1985. Eight members and 9 alternates attended. During fiscal year 1985, the Committee submitted a series of substantive recommendations to the Secretary. USDA is proceeding to implement these recommendations, which include: revised staple length standards; tightened specifications for the maintenance of temperature and humidity levels in cotton classing facilities; changes in the way instrument measurements are reported to cotton producers; and the designation of four organizations to establish values for calibration cottons.

Plant Variety Protection Board

The Plant Variety Protection Act of December 24, 1970, established the Plant Variety Protection Board. Its purpose is to advise the Secretary on the adoption of rules and regulations to administer the Act; to make advisory decisions on all appeals; and to advise the Secretary on all questions pertaining to the use of a protected variety if it is needed to provide an adequate supply of fiber, food, or feed in this country. The Board has 17 members, consisting of experts in various areas of varietal development covered by the Act.

The Board met September 24, 1985, at the National Agricultural Library in Beltsville, Maryland. Thirteen members attended. The Board recommended that fees remain at their present level and issued advice on descriptive standards for plant varieties.

Hop Marketing Advisory Board

The Hop Marketing Advisory Board was established on July 22, 1966, by Federal Marketing Order No. 991, which regulates the handling of domestically produced hops. The purpose of this Board has been to recommend marketing policies to the Hop Administrative Committee, which is made up of hop producers. The Board consists of five members from various hop handler segments of the industry.

On December 31, 1985, Marketing Order No. 991 terminated, and with it authority for the Hop Marketing Advisory Board also terminated.

SMALL COMMUNITY AND RURAL DEVELOPMENT:

National Advisory Council on Rural Development

The National Advisory Council on Rural Development reviews and assesses the needs and strengths of America's rural areas and communities and advises the Secretary in the preparation, implementation, and evaluation of the Congressionally mandated rural development strategy. This Council is authorized by Section 607(b)(3) of the Rural Development Policy Act of 1980. The current charter of the 30 member Council was approved on September 14, 1984.

The Council did not meet during fiscal year 1985. It met frequently in 1982 and 1983, and its advice was considered extensively in developing the basic framework of the Administration's rural development strategies for fiscal years 1983 and 1984. In fiscal year 1985, the basic direction of the strategy was already established, and a decision was made to submit a brief update to the previous strategy. Therefore, it was not necessary to bring the Council together for a meeting.

ECONOMICS:

National Agricultural Cost of Production Standards Review Board

The Agriculture and Food Act of 1981 (P.L. 97-98, Title X, Subtitle B) created the National Agricultural Cost of Production Standards Review Board in October 1983. Its purpose is to review the adequacy, accuracy, and timeliness of the cost of production methodology used by the Department in determining specific cost of production estimates; to review the adequacy of the parity formulae; to advise the Secretary on such matters dealing with the cost of production of agricultural commodities and price support operations as the Secretary may request; and to make such recommendations to the Secretary as the Board deems appropriate, including ways in which the cost of production methodology and parity formulae can be improved. The Board is composed of 10 members.

The Board held two meetings in fiscal year 1985. At the first meeting the members discussed and submitted the 1984 Annual Report to the Secretary and Congress. At the second meeting staff from the Economic Research Service (ERS) in USDA gave presentations covering the topics in the Annual Report, and the Committee members discussed the Secretary's responses to the Annual Report. ERS agreeed to continue examining areas of concern to the Board.

The 1985 Annual Report is being drafted by the Board's Chariman and will be submitted by March 31, 1986.

DEPARTMENTAL ADMINISTRATION:

Citizen's Advisory Committee on Equal Opportunity

Following the consolidation of the former Office of Equal Opportunity, the Office of Small and Disadvantaged Business Utilization, Minority Research and Teaching Programs and the competition advocacy functions for the Department to create the Office of Advocacy and Enterprise (OAE) in April 1985, the Citizen's Advisory Committee on Equal Opportunity (CACEO) was reestablished to advise the Secretary on the effectiveness of the Department's policies, practices and procedures that promote equal opportunity; to recommend changes in Departmental rules, regulations and orders to assure that USDA activities are free from discrimination based on race, color, sex, religion, national origin, age, marital status or handicap; to provide community input on USDA programs as they relate to equal opportunity; to advise the Secretary on the effectiveness of program directives that are designed to achieve compliance; and to make recommendations in support of Executive Order 12320 that mandates a significant increase in the participation of historically Black colleges and 1890 land-grant institutions in USDA programs. The Committee consists of 24 members, who are appointed to one-year terms. Membership is open to the discretion of the Secretary.

The Committee held a meeting on the campus of Delaware State College, Dover, Delaware, August 5 through 8, 1985. The three primary objectives of the meeting were as follows: (1) to examine the responsibilities of the 1890 land grand institutions and USDA to each other in the 1980's; (2) to review the Secretary's strategy for improving program management and administrative support in USDA, i.e., the Secretary's Five-Point Management Plan and the Departmental initiatives associated with its streamlining efforts, in relation to the mission of the Committee; and (3) to examine how the civil rights mission, structure, and staff in USDA were changing; i.e., the transition between civil rights requirements and assumptions of the 1960's versus the needs and realities of the 1980's.

In addition to the CACEO members and staff of the Office of Advocacy and Enterprise in attendance, officials from Kentucky State University, Lincoln University, the College of the Virgin Islands, Alcorn State University, Tuskegee University and Delaware State University participated in the meeting.

The findings and recommendations of the CACEO were included in a report to the Secretary in September 1985, with the further recommendation that the Office of Advocacy and Enterprise identify the Administrators, agencies, and programs of USDA which would be affected by the report, to ensure that recommendations are implemented.

The CACEO report to the Secretary stated, in part, that: "...the Equal Opportunity entity within OAE (had) initiated a variety of creative, timely realistic, and cost effective approaches to civil rights enforcement in USDA." The Committee requested that the results of pilot programs initiated in fiscal year 1985 be fully reported at the next Committee meeting.

Agriculture Structure Planning Advisory Committee

The Agriculture Structure Planning Advisory Committee was established by Departmental Regulation 1043-25 for the sole purpose of reviewing and critiquing the findings, recommendations, and options for restructuring USDA as developed by the Secretary's Task Force on Streamlining. The Committee was composed of 17 private citizens representing private sector activities affected by agricultural production and government agricultural programs.

The Committee met on September 16 and 17, 1985 in Washington, D. C. to fulfill its purpose. At the initial session Task Force members presented headquarters and field structure proposals and administrative support recommendations to the Committee. Following that briefing, the Committeee was divided into three groups to review the proposals. After deliberating on the proposals, the groups met in plenary session to identify issues and concerns to be presented to the Steering Committee on Streamlining. On September 17, the Committee presented its determinations on the streaminling proposals to USDA staff. In so doing, they stated their strong backing for restructuring as a means of improving service, reducing government cost, and restoring confidence in USDA.

The Committee ceased existence after the September meeting.

FRIDAY, APRIL 11, 1986.

OFFICE OF THE INSPECTOR GENERAL

WITNESSES

ROBERT E. BEULEY, DEPUTY INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL

DONN E ADKISSON, ASSISTANT INSPECTOR GENERAL FOR AUDIT, OFFICE OF THE INSPECTOR GENERAL

JEFFREY RUSH, JR., ACTING ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS, OFFICE OF THE INSPECTOR GENERAL

DELMAS R. THORNSBURY, DIRECTOR, MANAGEMENT AND BUDGET STAFF, OFFICE OF THE INSPECTOR GENERAL

STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Mr. WHITTEN. We have with us now, Mr. Beuley, Deputy Inspector General, Office of the Inspector General. We are glad to have you here.

Your job is to determine that those persons receiving benefits through the Department's programs are eligible for them and that the programs benefit those who need them most. It is a difficult job and we appreciate your help through the years. This Committee helped set up the office of Inspector General when Mr. Freeman was the Secretary.

An many problems as you have to deal with, it is difficult to carry out the job as fully as you would like. But it works mighty well. We are glad to hear from you, and we are glad to have included in the record the biographical information of those new to the subcommittee. We are glad to hear from you at this time.

INTRODUCTION

Mr. BEULEY. Thank you. I am pleased to be here today. I am the Deputy Inspector General and acting in the absence of Mr. Graziano, who has given some 35 years of dedicated service. He retired in February.

I would like to provide my full statement for the record. Mr. Chairman, members of the committee, I appreciate the opportunity to appear before you today.

CHANGING AGRICULTURE ENVIRONMENT

The Department of Agriculture must cope with a very dynamic environment in view of the current farm economy, the new farm bill, the balanced budget legislation, and efforts now in process to automate major activities within USDA.

Our role in this changing environment is not only to deal with current problems but to keep abreast of the proposed changes and to look for areas that are potentially vulnerable to fraud, waste and abuse. I have assembled a team to evaluate the impact of these new changes on the Department's programs and to develop a strategy for the Office of Inspector General's audit and investigative efforts during fiscal year 1986 and beyond.

One of the main purposes of this evaluation will be to provide early assistance to the Department in establishing and strengthening internal controls in the Farm Bill's implementing regulations. Another purpose of this effort will be to develop a short and long-range OIG plan for reviewing the programs at the various operating levels. We will conduct similar reviews on modifications that are made in Departmental programs as a result of implementing reductions required by the balanced budget legislation.

The task team has made a number of recommendations to preclude duplicate participation in more than one county; improve agency procedures for reviews of participants' compliance with program requirements; and to better ensure that payments from one program are used to repay debts owed by the same participant under another program.

We have also informed the Department of areas where decisions will be needed to provide for a consistent application of program benefits. These concern: loans to borrowers which could increase the production of commodities intended for control under other programs; a provision which requires the Department to purchase a minimum amount of red meat without a corresponding relation to the amount of product resulting from slaughter under the dairy herd termination program; and the need for cross compliance in all related programs to better control surplus commodities and soil erosion.

Our long-term plans call for coverage of program compliance by participants, the implementation of program agencies' internal review procedures to determine participants' compliance, and the adequacy of controls over program payments.

Even with the current concentration on programs affected by the farm bill, our overall program for fiscal year 1986 and 1987 will contain a balanced coverage of ongoing Department programs such as food stamps and meat and poultry inspection, as well as key administrative areas, such as personnel, procurement, cash and debt management.

This concludes my statement, Mr. Chairman. I would be glad to answer your questions.

[Biographical sketches follow and the complete statement of Robert W. Beuley appears on pages 357 through 367. The explanatory notes appear on pages 368 through 394.]

ROBERT W. BEULEY, CPA, CIA, CISA, DEPUTY INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE

He was selected Deputy Inspector General effective September 15, 1985, and currently serves with the Inspector General in managing and directing the Office of Inspector General investigative, audit and security activities conducted by over 800 employees in OIG, with seven regional offices throughout the nation and protectorates.

As Assistant Inspector General for Auditing at the Department of the Interior headquarters in Washington, he directed about 220 auditors in three U.S. regional offices and in overseas regional offices located in the Virgin Islands, Guam, and American Samoa.

He joined the Department of the Interior in January 1980 following an assignment in the Department of Commerce. At Commerce, he was the Assistant Director of the Financial, Administrative, and Automatic Data Processing Division in the Office of Inspector General.

Prior to that assignment, he was with OIG at the Department of Agriculture in three separate posts, serving as Director, Headquarters Division; Assistant Director, Policy and Resources; and Director, Agriculture, Economics and Departmental Administration Division.

Before going to Agriculture, he was Chief Auditor of the Office of Revenue Sharing in the Treasury Department for 18 months and spent approximately 13 years in the U.S. Army Audit Agency, where he held various audit management positions in the headquarters and three district offices.

Mr. Beuley has an MPA in Management and a BS in Accounting. In 1984 he was selected by President Reagan to receive the rank of Meritorious Executive.

He has served on various committees with the Institute of Internal Auditors, Association of Government Accountants and the American Institute of Certified Public Accountants.

BIOGRAPHICAL SKETCH JEFFREY RUSH, JR., ACTING ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS, U.S. DEPARTMENT OF AGRICULTURE

Jeff Rush was born on September 1, 1946 in Kansas City, Kansas. Mr. Rush is a graduate of Baker University, Baldwin City, Kansas. He has completed graduate work in the field of Administration of Justice at the George Washington University, Washington, D.C. and Wichita State University, Wichita, Kansas.

Mr. Rush began his career as an investigator while on active duty in the United States Army in August 1968. He joined the Office of Inspector General as a Special Agent in August 1971. He conducted, supervised, and managed criminal investigations for 12 years prior to his appointment as the Deputy Assistant Inspector General for Investigations in October 1983.

Mr. Rush and his wife Dawn have a daughter, Logan, and a son, Christopher. They reside in Springfield, Virginia.

FARM BILL

Mr. WHITTEN. Does anyone else have any statements to make? In general terms, what have been the developments last year that are unusual? Do you have any more problems than you have had in the past or more complaints? Overall, how do you feel you are getting along?

Mr. BEULEY. We think we are doing a very good job considering the payback we are getting. Of course, with the current farm economy, we have had more cases dealing with improper conversion and with the FCIC insurance program. With the new Farm Bill coming in, we have tried to look ahead at prevention-type measures so we could provide some recommendations to the agencies in the implementation stage. We have people out there now looking at implementation of the Farm Bill provisions.

Mr. WHITTEN. What are the changes and how are you having to deal with them? You may orally describe them in general terms but put the detail in the record, if you would. What were the changes resulting from the Farm Bill.

Mr. BEULEY. One example is the dairy herd buyout provisions termination program. We looked at that and have made some recommendations. For instance, for those people applying for the dairy herd buyout, but who also owed Farmers Home loans, we recommended there be provisions to make sure that the Farmers

Home Administration be party to those particular payments so that the collateral would be protected.

Another concern is, whether or not the Department has adequate protection for the herds bought from people who are going into bankruptcy.

The Food Security Act of 1985 (Farm Bill) did not contain specific provisions which directed OIG to take specific actions or implement programs. However, the new Farm Bill did require the Department to implement new programs and amend existing ones. OIG formed a task force to review the Farm Bill to evaluate the impact on the Department's programs, develop a strategy for audits and ivestigations during Fiscal Year 1986 and beyond, and provide early assistance to the Department is establishing and strengthening internal controls in the Farm Bill's implementing regulations.

Approximately 3,900 workdays are planned for the remainder of Fiscal Year 1986 to provide audit coverage of new provisions in the Farm Bill including the Dairy Termination Program, the Conservation Reserve Program, rice and cotton loan repayment rates and interst rate buydown provisions. In order to povide coverage for these new provisions, it was necessary to cancel or postpone audits which OIG now judged to be of lower priority.

Thus far, the Food Security Act of 1985 has not had any significant effect on the number of cases referred to OIG for investigation. Nor have any provisions of the Act altered the manner of our operation.

Mr. Whitten. You heard the testimony preceding your appearance. Because of the sale of dairy herds, which I don't think will meet the problem at all, the value of livestock has dropped $6 to $8 per hundredweight. This is at a time when the Secretary of the Treasury is putting in the press what he is doing for Argentina, so it can compete. What gets me—and this is beyond your control, and mine, too—we have the same thing with textiles, the same thing with steel, the same thing with shoes, and land values. Because we don't make money in farming, land values have dropped as low as 25 percent of what it was two years ago.

I can't see how folks can fail to see we cannot keep up the present progress in the direction which we are going without the whole country cracking up. I can't see it. We all would like to see something good in it. Does that enter into what you have to do?

Mr. Beuley. From our point of view, Mr. Chairman, our role is to review those rules and regulations put out and make sure the people that are applying for program benefit do, in fact, deserve those benefits and are not fraudulently preparing statements understating their income or production and overstating their needs.

The money that is wasted by fraudulent schemes and things of that nature is certainly money going away from people who deserve and need it. Our role is to look at the effective implementation of the rules and programs and determine whether people are trying to cheat on those rules.

From that point of view, we are trying to get funds away from people who don't deserve them, by considering requirements and eligibility; thus, providing more money for those who do deserve it.

CHANGES RESULTING FROM FARM BILL

Mr. WHITTEN. Any changes in the Farm Act that would make the farmers who lost all their farm, their home and everything else, to make them eligible for the various food programs?

Mr. BEULEY. I don't know—Donn, do you have any feel for that?

Mr. WHITTEN. This page, which I put in the record, which appeared in the Washington Post, describes a number of suicides of youngsters and old people because of the farm situation. I have had calls from my district, elderly people that spent their lifetime farming, are put off the farm, they are worried. People are literally killing themselves. Are these kind of people eligible for all these food programs under the rules that you have?

Mr. BEULEY. If their income level falls, I imagine they would be. Donn, do you have any feel?

Mr. WHITTEN. Have you had any influx of those folks that you are experiencing?

Mr. BEULEY. To this date, I don't know——

[CLERK'S NOTE.—The article follows:]

This article, reprinted from the May 30, 1985 Washington Post Style section, won for its writer, The Post's Paul Hendrickson, first place in the single story general reporting category in the 26th annual Penney-Missouri Newspaper Awards competition.

The Fields of Fear

In Iowa's Farm Land, the Hard Times Rouse Feelings of Anger & Acts of Despair

By Paul Hendrickson
Washington Post Staff Writer

AMES, Iowa—Beauty is a cruel mask when the earth rolls right up to the edge of the interstate, freshly turned. When the rosebud trees are bleeding into pinks and magentas. When the evening rain is soft as lanolin.

And yet . . . five students from Iowa State University killed themselves during the past academic year. Why? Nobody really knows.

It's almost as if acute stress were an infectious disease in Iowa, like pinkeye in cows. A blooded humming presence in the sweet-smelling air. People can just reach up now and touch it.

This past March, in a place called Strawberry Point (population 1,463), men with mud on their boots sat in St. Mary's Catholic Church and wrote names on small pieces of paper. Maybe it was the name of the person in the Federal Land Bank who killed their loan. Maybe it was the auctioneer who sold off the family possessions as if they were bingo cards. Maybe it was the smart-ass from John Deere who had said, sorry, this time he'd just have to have cash. How are you supposed to get your corn in when they won't give you credit?

One by one, these proud, humiliated men got up from their pews and walked to the altar and deposited their slips of paper into a coffee can wrapped in tinfoil. Then they set it on fire. What they were trying to do was burn away their bitterness and anger before something worse happened. Yes, it was symbolism, but it was also an expression of community grief. The priest who ran it said it was an effort to find a spiritual dimension to so much suffering and loss.

A month and a half ago, a man near the town of Osage told his wife he'd be back by supper. He had recently sold out, and the sale didn't go well. He and his wife were renters on the land, and the land had turned sour as gall. All five of his children were dead. (Four of them were killed in the same car crash years ago.) Maybe it was the lousy sale; maybe it was the lousy world. A priest said he just walked out into an open field and shot himself. He was in his sixties. There was no note.

A farmer up near Mason City was digging a coffin-sized hole behind his house a while back. His wife rushed up.

"Oh, my God," she said, putting her hands up to her mouth. "What are you doing?"

"It's not for me," he said and kept on digging. "It's for our banker."

They got him psychiatric help.

All over the state, it is happening, and has been happening, and few want to talk of it. Neighbors avert their eyes. But it isn't only suicide and murder, or the threat of it. Less savage gods are loose here, too: wife beating, alcoholism, child abuse. All of it is alarmingly up, say social workers and psychologists and ministers.

What is the explanation? A desperate economy is much of it, of course. The rest of it is eerily devoid of logic. But violence, self-directed or otherwise, isn't chained to reason.

Maybe we've been living too long off old myths. Maybe Meredith Willson and "The Music Man" died a long time ago.

STATISTICS WON'T TELL THIS SAD STORY, but here are several chilling ones:

- A farm goes down in America every six minutes.
- In Iowa, according to a poll in Farm Journal this past winter, 42 percent of all farmers are thought to be "sliding toward insolvency."
- One-third of all Iowa farmers are facing foreclosure. What this means, in the jargon of agricultural economists, is that their debt-to-asset ratio is 70 or higher: 70 cents or more on every dollar they're worth is owed to a pale figure in a slack suit behind a big desk in a bank.
- According to a sociologist at the University of Missouri, the suicide rate among midwestern farmers is 30 to 40 percent above the national nonfarm rate—and rising.

And yet, farmers have always had a way of defying odds. Many have found credit this year when all the betting went the other way. The spring crop has gotten in the ground, after all.

Says Paul Lasley, director of the Iowa Farm and Rural Life Poll at Iowa State: "We know suicide is happening. All the signals I get tell me it's happening. There's a lot of despair. I don't know—mark it from the last 18 months. But how do you count? Let me give you an example of the problem: Occupation is listed on Iowa death certificates, but they don't put them in the computer that keeps track of vital statistics. You'd have to go through by hand and try to figure out which ones were farmers."

The first Iowa State suicide occurred last fall. He was a good kid from good German stock. He shot himself on his parents' farm in a bucolic little spot at the top of the state named Buffalo Center. He was in love with things coming up out of the ground. He left his dorm one night, rented a room in a motel, drove home several days later. The neighbors spotted his car by the side of the road.

"He was just lying out there in the corn," says his ag-ed adviser, pulling lint off his sock, unable to look up.

But here is the mystery: His parents' farm wasn't going under. It is doing fine, in fact. The flash point was elsewhere.

Last year, three teen-agers in Storm Lake committed suicide. One was the basketball coach's son. They say he just walked past his parents into his bedroom and shot himself. A psychiatrist was brought in from the Menninger Foundation in Topeka, Kan. He talked to a lot of people and ran some tests and told the town its problems were pretty normal. What happened might have been just a statistical quirk.

In Harlan (population 5,357), on the western edge of the state, three farmers killed themselves in 18 months. The American Psychological Association sent a writer out earlier this year and residents hinted darkly that the actual number was higher than that.

These are recent, random headlines from the Suicide File at The Des Moines Register, the state's largest daily:

"Man Slays Woman, Then Himself"

"Sioux City Boy, 10, Dies of Hanging"

"Clive Man Found Dead in Home of Gunshot Wound"

"Officers Say Farmer Left Notes Planning Suicide"

"Jobless Clinton Plumber Shoots, Kills Wife, Then Self"

"Farmer Slays Ex-Fiancee, Then Turns Shotgun on Self"

"Despondent Woman Commits Fiery Suicide"

"Minister Who Drowned Despaired Over Losing Job"

"We had to start a separate file for the first quarter of the year," says the paper's librarian, matter-of-factly. She kindly does a computer run on suicides in the last nine months, and the list is as long as her leg. The file from 10 years ago is scant by comparison, but the comparison isn't really fair. For one thing, until recently medical examiners in Iowa have been reluctant to put the word "suicide" on death certificates. They're still reluctant. The word cancels life insurance policies. But it is more than that. People want to respect their neighbors. The word was and is such a taboo.

So a man is found hanging one morning from a rope in his machine shed. So somebody puts a .410 shotgun in his mouth under a beech tree one evening. So somebody is found crushed beneath his International Harvester tractor. Well, you put it down as "accidental." Either way, somebody didn't have to watch the sheriff come out and nail signs on his land. Everybody can tell these stories now.

In the town of Spencer, up near the Minnesota border, it is not uncommon for 75 families a week to walk into the Northwest Iowa Mental Health Clinic. One of the common thoughts that come out is suicide. Four separate crisis intervention support groups are currently operating in Spencer. Breaking through the resistance is the hardest part. "We're past the point of positive pretending," says Joan Blundell, a social worker at the clinic.

Life in rural America was never easy. If it wasn't the ruinous weather, it was the harsh loneliness. And still, the outside world wants to romanticize rural life—or mock it.

To the naked eye, much of Iowa is doing just fine. Many farms are fat and healthy. So are some city dwellers. The temptation is to say the problem doesn't exist. It's the hard-to-see bottom tier that's hurting. The gap between rich and poor widens in Iowa, as it does everywhere else in America. The midwestern state that helped vote in Ronald Reagan in the last two elections now gives him, in a recent poll, a 24 percent approval rating. In February, the president had a 42 percent approval rating in Iowa. But then, in March, he vetoed farm emergency credit relief legislation.

YOU LAND AT DES MOINES AND COWS ARE grazing behind a fence at the end of the runway. You drive out into the countryside and the quiet crashes all around you. It is the contrast between what pleases the eye and what burdens the soul, but you don't have to live in Iowa to feel that. People have long suffered at the hands of their place's beauty, whether in Northern Ireland or South Africa or Appalachia.

There are no easy answers to any of this. The five Iowa State suicides this past year, none of which occurred on campus, are thought to be the highest number of self-inflicted deaths of any college in the country. That report went out on National Public Radio in April. The university would like to think it is an isolated phenomenon, freakish as lightning in a rainless summer sky. And, in fact, maybe it is.

But several weeks ago, the Office of Student Life at ISU released the final results of a March "Student Stress" poll. More than half of the 212 students polled—54 percent—said their anxiety was indeed related to the state's farm crisis. One in every four polled said they felt that "life was not worth living." Extrapolated to the total campus enrollment of 26,000, that would mean more than 6,000 students are walking around with suicidal feelings. That number blew the lid off the poll.

Maybe the questions were phrased wrong. Maybe you'd get that response on any campus in the seemingly placid '80s.

An outsider dare not make something more than it is. The five ISU students (two from the same dorm) conform to no particular profile. One was in preveterinary, One was a new transfer into entymology. Two had no farm background at all. Overall, the links in these five student deaths to the state's rural stress seem tenuous. And yet one would be a fool not to think something is terribly awry in the middle of the country.

"It would be a mistake to think that ISU is an island of psychological depression," University President Robert Parks told The Des Moines Register. The Register broke the suicide story. "This may be part of a sad nationwide condition."

The university is in the town of Ames, in Story County, in the richest agricultural belt in one of the richest agricultural states. The land is so black it almost hurts your eyes. You stand on the steps of the massive student union and watch kids fishing in Laverne Lake, right on campus. The bells in the carillon toll every 15 minutes. Lovers drift head to head. It feels like a 1940s movie starring William Holden as Biff Baker, with June Allyson on his handlebars. In the library, students sit near a mural engraved with words from Daniel Webster: "When Tillage Begins, Other Arts Follow."

"I wouldn't argue the right to cover the story, no, no," says Dave Lendt, the university's public information director, a nice man who of course wants to put the lid on. "We're all First Amendment freaks around here. I do know that these are not flaky people. I do know that these are people who have values, who do not come here without anchors, without family ties. These are people who do not believe they can take up a space in the world without giving something back. What you've got here are center-of-the-road, corn-fed, land-grant type of students."

Lisa Birnbach, author of "The Official Preppy Handbook," came to Ames a while back and called it Silo Tech and Mule U. Har-har. In Agronomy 600, there are lectures entitled "Water Relationships in Alfalfa" and "Effect of Residues on Maize Growth." The University of Iowa is two hours away, in Iowa City, and over there they like to style themselves as the Left Bank of the Mississippi. Iowa City is where the artists are, Ames is where the hayseeds are—never mind that Iowa State has a huge engineering college, that it did some of the earliest atomic energy research in the nation, that its National Public Radio affiliate plays Liszt and Mozart. Things are never quite what they seem.

In ISU faculty mailboxes these days are memos about detecting "warning signs."

HIS NAME IS PETE KAPUSTKA, AND HIS voice is high and reedy, his body trim and muscular. He wears cowboy boots and walks with one hand in his back pocket.

He's thought about suicide, yes, driving his car into a bridge, but he's past that. He's only 20 but now he's head of the family. His father, at 46, is on his back in an Omaha hospital: bone cancer. He may never farm again. In fact, there may be nothing left to farm: The family is threatened with foreclosure—not just to the bank, that's the half of it. But to relatives who hold the notes.

"I found out last night my dad's family is serving us with papers of forfeiture," he says. "I sat up half the night trying to figure out what to do."

He came home from Iowa State on April 1 to get the spring crops in. College has to wait. He brought home with him his favorite poster and put it on a new wall: "They that sow in tears shall reap in joy."

"Now my dad, without ever telling me to my face, has entrusted me with putting this year's crops in the ground," he says, and there is a sonorous, almost dreamy, quality about the sentence. "From his bed in Omaha, my dad figured out how much seed corn we need. He's been farming down in Omaha for a couple weeks now."

He went to see his dad in the hospital. He had just come out of surgery. There he was, full of tubes and dangling things, with nurses and funny-smelling stuff all around, and all he could fix on was his calluses. He kept saying, "Pete, Pete, come over here and look at my calluses. They're peeling."

The son who has become the man is telling you this in a huge equipment shed on a suddenly glowering afternoon in Barnum, which is a wide spot in the road west of Fort Dodge. His eldest sister is in the house making supper; she has become the mom, because the real mom spends a couple of days every week in Omaha. The wind is racking fiercely at an aluminum roof. Pete's little brother, Tony, who is 10, is skimming stones on a dirt floor. Tony is chubby and in a red satin school jacket. The difference between 10 and 20, between the big brother and little brother, seems as vast as the tilled fields spreading beyond the house.

"I've been to Chicago once, for about 20 hours," Pete says, laughing at himself.

He slaps at the fender of a mud-caked tractor. "This is the staple of the American family farm, a 4020 John Deere."

"I can drive 'er," Tony calls over.

Pete walks around a four-wheel drive with an enclosed cab.

"This is our 8640. We bought it when things were good. It cost $80,000. You couldn't sell it now for $20,000."

"Nah, we don't use 'er much," says Tony.

Pete squints over at his little brother. "I'm about numb to all this stuff. I keep a journal. It's hard to remember when things were normal. But I've always heard, if you think you're crazy, you're probably not."

In the late '50s, his dad came out of the Army and had no choices but to take over the family farm. His own father, Pete's grandpa, had walked out into a winter field just a little while before and split his head open on a patch of ice. He just bled out. By the time they got him into the house, he was almost gone. So the son, just sprung from the service, had all his options foreclosed.

"And in a way, I feel it's kind of happening all over again."

Nights are the roughest. You go in and try to sleep. Often it doesn't come. You're up anyway as soon as the light is pale.

One bad night a couple of months ago, Pete Kapustka wrote a letter to the president of the United States. He wrote it in longhand on Alpha Gamma Rho stationery. Alpha Gamma Rho is the big ag house at Iowa State. The stationery was a kind of classy yellow parchment; he figured that might catch the president's eye.

"I said, 'Sir, we're just a family farm. My dad's dying of cancer, we're losing our land, and you not only rejected the farm emergency bill, but you made a spectacle of it. Please do something, sir, do anything.' "

He never heard back.

IN NORA SPRINGS, MARY BETH JANSSEN AND her husband Gary run farm survival meetings. They've set up a computer in their living room. They meet with fellow farmers in local churches. The first thing they do is pray. There is no particular agenda—people just stand up and talk, get it out. Sometimes Gary accompanies bankrupt friends to the bank.

Mary Beth is telling you this on the phone and she sounds as if she's talking from Ethiopia. "We've been through bankruptcy. We're still farming and sometimes I ask myself, 'What the hell for?' Gary and I lost a farm that had been in the family 80 years. 'We were failures.' You hear a lot of that. When somebody goes down, you hear, 'Oh, he deserved it.' I think people are so afraid that it's going to happen to them next. But Gary and I are through rolling over and giving in. For years we sat on the dumb side of the desk when it came to bankers. What Gary and I are trying to get people to realize is that it's not their fault. It's been coming on for years. That's what happened in the '30s."

Gary takes the line. "I have no degree in anything. Yeah, I've probably saved some lives. To say who, I couldn't give you a name. I don't know who's in the back row. The people in the front row, you don't worry about."

FOOD STAMP PROGRAM

Mr. WHITTEN. Please provide for the record the dollar amount of salaries and expenses and the number of OIG staff years that were actually related to the food stamp program during 1984 and 1985, and how much you anticipate to spend in 1986 and 1987 on food stamp activities. We noted that in response to this same question last year you showed significant decline in both dollars and staff years from $8.8 million and 133 staff years in 1983 to $5.3 million and 82 staff years anticipated in 1985. Please explain this decline.

[The information follows:]

During FY 1984 $5.1 million and 75 direct staffyears and during FY 1985 $4.6 million and 66 direct staffyears were related to efforts on food stamp activities. We anticipate spending about $5.3 million and 75 staffyears in fiscal year 1986 and the same in FY 1987.

As you know, my office has working agreements with the United States Secret Service (USSS) and the Compliance Staff of the Food and Nutrition Service (CS). The following table is provided for your information:

NUMBER OF INVESTIGATIONS

Fiscal year	OIG	USSS	CS	Total
1983	1,637	234	4,155	6,026
1984	745	138	4,651	5,534
1985	334	289	5,238	5,861

Please note the relatively constant level of investigative activity, and, as provided in my semiannual reports to the Congress, the monetary results associated with these investigations has increased in each of the past few years.

AUDIT AND INVESTIGATIVE REPORTS ISSUED

Mr. WHITTEN. Please submit for the record tables which will show, by agency, the total number of audit reports, investigative reports, indictments, convictions, suits filed, and fines levied for each year 1980 through 1985.

[The information follows:]

Agency	Indictments	Sentences	Suits	Judgments	Fines
Fiscal year 1980:					
ASCS	83	68	5	5	$83,300
FmHA	78	39	23	19	27,789
FNS	443	344	2	3	330,188
APHIS	14	11	1	1	4,350
FSIS	20	15	1	1	80,908
Other	14	23	0	2	37,750
Total	652	500	32	31	564,285
Fiscal year 1981:					
ASCS	55	42	13	8	64,950
FmHA	51	31	8	9	66,010
FNS	867	435	2	3	426,889
APHIS	9	7	0	0	22,750
FSIS	48	29	0	0	43,250
Other	21	20	0	1	121,533
Total	1,051	564	23	21	745,382

—Continued

Agency	Indictments	Sentences	Suits	Judgments	Fines
Fiscal year 1982:					
ASCS	100	66	4	10	89,350
FmHA	48	30	11	7	35,501
FNS	1,211	726	4	2	664,699
APHIS	2	2	0	0	1,000
FSIS	16	20	0	0	74,700
Other	13	12	0	0	18,800
Total	1,390	856	19	19	884,050
Fiscal year 1983:					
ASCS	63	69	2	6	192,538
FmHA	88	52	15	5	72,500
FNS	1,056	907	2	2	810,340
APHIS	2	2			
FSIS	21	22			18,120
Other	22	4			10,000
Total	1,252	1,056	19	13	1,103,498
Fiscal year 1984:					
ASCS	51	61	3	3	97,750
FmHA	126	87	5	4	97,830
FNS	825	867	1	12	1,384,149
APHIS	5				150,000
FSIS	34	25		1	26,260
Other	28	23		1	52,160
Total	1,069	1,063	9	21	1,808,149
Fiscal year 1985:					
ASCS	40	36	3	7	28,655
FmHA	109	97	17	5	53,040
FNS	340	425	1	1	375,468
APHIS	4	6			49,000
FSIS	21	17		1	584,000
Other	56	45		1	196,530
Total	570	626	21	15	1,286,693

AUDIT AND INVESTIGATIVE REPORTS ISSUED

USDA Agency	FY 80		FY 81		FY 82		FY 83		FY 84		FY 85	
	OA	OI	OA	OI	OA	OI	OA	OI	OA	OI	OA	OI
AMS	4	11	4	8	8	16	16	30	12	14	8	25
ASCS	148	126	60	152	35	183	188	151	92	171	81	244
FmHA	193	273	101	263	221	248	93	323	116	266	129	258
FCIC	3	0	5	0	4	23	6	21	6	10	3	22
FAS	18	2	30	2	27	3	0	1	5	5	2	8
FS	14	3	13	0	14	45	14	33	27	25	27	32
SCS	8	0	5	0	10	10	13	10	15	3	16	8
FNS	271	781	153	980	547	1336	216	1720	769	806	384	418
APHIS	8	40	6	27	17	9	7	18	11	14	8	25
FSIS/FGIS/PSA	6	153	9	109	5	66	7	44	2	8	13	68
Dep Adm OA only	13	-	9	-	7	-	6	-	2	-	2	1
Multi Agency OA only	11	-	19	-	51	-	176	-	203	-	93	1
Other	8	536	18	343	25	293	18	211	41	248	29	113
TOTAL	705	1925	432	1884	971	2232	760	2562	1301	1570	795	1223

FCIC VULNERABILITY

Mr. **Whitten.** At last year's hearing, Mr. Graziano stated that you were closely monitoring the crop insurance program operated by FCIC because you believe that it could be an area of major vulnerability in the Department's operation. What have you found over the past year? Please describe in some detail.

Mr. **Beuley.** In addressing the vulnerability of FCIC's crop insurance program, we have worked closely this past year with FCIC officials to lessen the possibility for fraud and abuse. We have also increased our audit and investigative scrutiny of FCIC's programs.

With respect to coordination with FCIC officials, we have assisted FCIC staff in setting up an effective compliance office which will provide FCIC with a structured internal review system for their insurance programs. We have also worked closely with FCIC staff to improve procedures for investigative referrals by alerting FCIC to the various kinds of schemes and devices which are commonly used to defraud FCIC's insurance program and by identifying various practices and conditions which render the programs vulnerable to fraud, waste, and abuse.

We have approximately doubled our investigative scrutiny of FCIC's insurance programs. The bulk of our investigative work has focused on producer fraud, on the exaggeration of damage and the overstatement of crop losses by farmers who participate in FCIC's crop insurance programs. While focusing on producer fraud, we have also noted an increase in allegations against both master marketing and reinsurance agents. These allegations vary from negligent or willful misrepresentation of FCIC policy or procedures, to outright collusion with producers to collect fraudulent insurance benefits, thereby increasing commissions paid to insurance agents on producer policies.

Most of these allegations involve individual insurance agents who abuse the program for personal enrichment. However, we are now in the midst of an extensive audit review of Multi-Peril Crop Insurance companies in Texas and Oklahoma which will examine the vulnerability of reinsurance companies themselves to fraud, waste, and abuse.

FCIC OVERPAYMENTS

Mr. **Whitten.** We understand that there are several cases in the Southeast involving over-payments. What can you tell us about this without, of course, endangering the investigation?

Mr. **Beuley.** Over the past year, we have opened several investigations of producers and insurance agents in the Southeast area. These investigations involve the alleged submission of false insurance claims to FCIC wherein either producers or agents have falsified reports of damage to crops and furnished inflated claims of losses. These allegations are particularly serious because they raise the possibility of collusion by insurance agents and insurance companies in these schemes, and if proven true and widespread, could threaten the overall integrity of FCIC's insurance program.

We have recently concluded one investigation in Georgia involving a prominent farmer who attempted to bride an FCIC loss adjuster and to defraud the government of approximatley $500,000 in indemnity payments. The adjuster reported the bribe attempt to OIG and cooperated in the ensuing investigation. The farmer paid the adjuster $10,000 and promised him an additional 10% of all indemnity proceeds if the agent would assist the farmer in certifying false claims of insurance losses. The farmer pled guilty to bribery and is now awaiting sentencing in Federal Court.

MASTER MARKETER VERSUS MULTI-PERIL INSURANCE

Mr. WHITTEN. Do you find a difference in the problems associated with crop insurance being handled by master marketers versus that being handled by multi-peril insurance companies?

Mr. BEULEY. OIG has noted an increase in allegations against both master marketers and multi-peril insurance companies. The allegations vary from negligent or willful misrepresentation of FCIC policy and procedures to outright collusion with producers to collect fraudulent insurance benefits. Investigations involving such allegations are currently underway.

Over the past year OIG has seen an increase in allegations involving multi-peril insurance companies. This increase would seem to reflect the recent transition in insurance delivery from master marketer agents, which are supervised by FCIC field operations offices, to multi-peril insurance companies, which are administered wholly by private insurance companies. OIG is currently auditing the multi-peril insurance company program with emphasis on the handling and disposition of claims.

UNAUTHORIZED DISPOSITION OF FMHA LOAN SECURITY

Mr. WHITTEN. Last year you noted increases in unauthorized disposition of loan security related to Farmers Home loans. Has that trend continued? Have you found any indication of local Farmers Home officials encouraging loan security disposition? Isn't this a somewhat common practice on a smaller scale, albeit illegal, in certain parts of the country?

Mr. BEULEY. We are continuing to schedule for investigation a substantial number of FmHA cases involving the fraudulent conversion of government colateral by FmHA borrowers. During this fiscal year, we have already received more than 120 referrals involving FmHA borrowers who have allegedly converted security property mortgaged to FmHA. Thirty-six additional cases have been referred to us involving FmHA emergency or disaster loan recipients who have allegedly violated similar loan regulations regarding government security. At present we have more than 235 such investigations pending in our case backlog.

We have not noted any indications that the illegal practice of conversion is aided or abetted by FmHA officials. On the contrary, almost all of the cases referred for investigation were detected by local FmHA county supervisors or their staffs and properly reported to OIG.

In past years, however, we did observe and note that FmHA did not always require some borrowers to adequately account for crops and chattel sales and the proceeds thereof. We found in our audits of FmHA that records of crops and chattel sales and the use of sale proceeds were often incomplete. New regulations implemented by

FmHA call for additional documentation of planned sales and use of proceeds at the time a loan is made and require borrower reporting of sales which deviate from this plan. It is currently too soon to evaluate the effectiveness of this new procedure.

LANGUAGE ON MARIJUANA CULTIVATION

Mr. Whitten. In P.L. 99-190 language was added to clarify and make stronger the Department's ability to deal with persons involved with marijuana cultivation and USDA programs. Without divulging any sensitive material, please provide a status report on the use of this new language.

Mr. Beuley. New language in the Food Security Act of 1985 clarified and strengthened the Department's ability to deny program benefits to agricultural producers who are convicted under Federal or State laws of illegal activities connected to production, etc., of controlled substances. The USDA agencies that administer programs where benefits may be denied agricultural producers are the Farmers Home Administration [FmHA], Federal Crop Insurance Corporation [FCIC] and the Agricultural Stabilization and Conservation Service [ASCS]. FmHA is in the process of drafting regulations to implement the new legislation. FCIC has drafted regulations which will soon be routed for Department clearance and approval.

ASCS has published interim rules in the Federal Register and is in the process of amending their operating procedures. As a result of the stronger language ASCS has already prevented one North Carolina producer, who was convicted of a drug related offense, from enrolling his farm in the 1986 farm program. This producer operated approximately 500 acres and could have earned payments of between $35,000 and $40,000.

DECREASE IN TRAVEL FUNDS

Mr. Whitten. We note that the most significant change in your proposed budget is a decrease in travel funds of some $139,000. In a travel intensive agency like yours, how will this impact your ability to do your job?

Mr. Beuley. With a travel budget of $5 million, we do not expect the slight decrease to have a significant impact on our ability to do our job. Close management of our travel activities, should allow us operated approximately 500 acres and could have earned 1986 payments of between $35,000 and $40,000.

CONFIDENTIAL OPERATIONAL FUNDS

Mr. Whitten. The appropriation language allows for up to $75,000 to be spent on certain confidential operational expenses. In fiscal year 1985, how much money was actually used under this authority?

Mr. Beuley. At various times during the year while conducting certain investigations most of the money would be in use; however, at the close of the year, funds expended for FY 1985 were approximately $26,000.

FY 1985 UNOBLIGATED BALANCE

Mr. WHITTEN. At the end of fiscal year 1985 you had an unobligated balance of some $1.4 million. What accounts for this lapse in funds.

Mr. BEULEY. This is primarily due to lapse in employment. Our actual staffyears were about 40 below our authorized ceiling.

INSTANCES OF FIREARM USAGE

Mr. WHITTEN. In carrying out the duties of the IG in fiscal year 1985, how many instances were firearms actually used by your personnel?

Mr. BEULEY. My designated special agents were able to exercise their law enforcement authorities in fiscal year 1985 with no shooting incidents.

CONVICTIONS VERSUS SENTENCES

Mr. WHITTEN. While the conviction rate in cases involving your office has been very good—about 90 percent—do you believe the sentences imposed have been consistent with the crime?

Mr. BEULEY. In the past several years, we have seen the sentences increasing in most cases. Considering sentences in other Federal and State crimes, including violent crimes, the sentences for OIG Investigations in general have been consistent with the crime.

For example: In Pennsylvania, a subject who conspired with two other persons to transport cancer-eyed and diseased cattle from one state to another to be slaughtered for human consumption was convicted of a violation of the Federal Meat Inspection Act. He was sentenced to one year in prison, fined $35,000, and placed on probation for five years.

In Oklahoma, an FmHA County Supervisor was sentenced to seven years in prison for embezzling more than one million dollars in FmHA loan funds. He set up fraudulent loan accounts in the names of fictitious borrowers, and was joined in the scheme by two business associates.

In Texas, a husband and wife were indicted by the State District Court in Texas for unlawful delivery of grain. The husband was sentenced to 12 years in State prison. The charges against the wife were dismissed on the grounds the husband was the prime architect of the criminal scheme.

MONETARY VALUES

Mr. WHITTEN. We note in the explanatory notes you estimate monetary values associated with "program improvement purposes—no collection" to be $9,268,852,770. Is this estimate based on your recommendation prior to or after any program changes?

Mr. BEULEY. These amounts are based on recommendations made prior to program change. Program improvements represent costs known to have been expended erroneously or improperly, or regulations incorrectly interpretated or applied by USDA personnel, made to borrowers and/or lenders who acted in good faith. Program improvements may be statistical projections used for the purposes of alerting management to significant program problems. In many cases, legislative changes are required before the monetary amounts can actually be realized.

VERIFICATION OF CORRECTIVE ACTION

Mr. **Whitten**. Describe what you have done during the past year to verify that recommended corrective actions were really taken by program officials.

Mr. **Beuley**. Congress included in the Supplemental Appropriations and Rescission Act of 1980 a requirement that audit findings be resolved within 6 months after the audit report is issued. After an audit report is issued in final, OIG meets with the agency and attempts to resolve it. If agreement is not reached within 6 months, that fact is reported to the Congress in the OIG Semiannual report. An audit is considered resolved when the agency and OIG have agreed on the validity of the findings and the need for and nature of corrective action. When the agency and OIG agree on the actions to be taken, each action is entered into the OIG computerized tracking system and reviewed and updated every 30 days and at the time of closure. An audit is considered closed when all findings have been resolved, nonmonetary corrective action has been completed, and in the case of monetary findings, claims have been established and recorded as receivables in the agencies' accounting records. On major audits, when all corrective actions taken have been reported to OIG, a followup audit is usually scheduled to verify that the reported actions have been completed.

MONIES RESULTING FROM INVESTIGATIONS

Mr. **Whitten**. Last year there was over $14.7 million in money received from fines, restitution, and recoveries and collections as a result of OIG investigative results. Does all of this money go to the general Treasury or is some of it available to USDA?

Mr. **Beuley**. The monies received directly by OIG, as well as that remitted to Clerks of Court, went into the General Fund of the United States Treasury. It is not available to USDA agencies.

ADP SECURITY AT NFC

Mr. **Whitten**. Did the failure of the National Finance Center (NFC) to change identification codes and passwords in a timely manner in its computer operations leave the NFC vulnerable to embezzlement? Have you audited NFC to assure that nothing like that occurred?

Mr. **Beuley**. NFC operates two computer systems which are not linked directly together. Our audit disclosed that identification codes and passwords had not been changed in one computer system, the Honeywell configuration. Our evaluation of the other system, the IBM configuration, did not disclose similar weaknesses. No payment systems run on the Honeywell; therefore, embezzlement of funds through modification of application systems or data on the Honeywell is remote. Our major concerns were that unauthorized access to the Honeywell could disrupt NFC operations and/or allow undetected copying of proprietary software and free computer time.

OIG performs continuous reviews at NFC. We have a resident staff of 14 EDP auditors and computer analysts assigned to conduct system development, post implementation, security, and financial audits of NFC and its user agencies.

USDA ADP SECURITY PROCEDURES

Mr. **Whitten.** In reviewing the explanatory notes we see that many investigations and audits concern the use of agency ADP systems. Is there a single element of USDA that is set up to insure proper security in ADP procedures? Have any departmental guidelines been issued as a result of OIG findings?

Mr. **Beuley.** Within USDA, the Director, Office of Information Resources Management PIRM, is responsible for developing and issuing ADP security policy and regulations; reviewing and approving agencies' ADP security plans, and assisting agencies in ADP security program development and administration.

In a 1982 OIG audit, we recommended major revisions be made to existing departmental security regulations. In response, the Department revised its ADP Security Manual by incorporating OIG's recommendations.

OIG's audits and investigations allow us to also evaluate the ADP Security Manual to ensure its effectiveness primarily in light of the rapidly changing technologies. We work closely with the Departmental Security Officer in OIRM to timely recommend and/or review revision to regulations regarding security.

COST EFFECTIVENESS OF PURCHASE ORDERS

Mr. **Whitten.** In your audit of departmental activities, it was found that departmental use of purchase orders was not always cost effective. In fact, you estimate that use of purchase orders may have cost the Department over $500,000 more in operating expenses than the value of the items purchased. As a result of your audit, the Office of Finance and Management (OFM) agreed to do a Department-wide study of the cost effectiveness of purchase orders. Has that study been completed, and if so, what are the results?

Mr. **Beuley.** The study is not yet completed; OFM is currently in the process of gathering and analyzing procurement data from several agencies and plans to issue the results of the study in June 1986.

DEBT MANAGEMENT

Mr. **Whitten.** The discussion in the explanatory notes concerning debt management and collection procedures make the statement that $344,660 in accounts receivable were improperly classified as non-government accounts and were in fact government accounts under the OICD. Now that these accounts have been properly classified, how are collections proceeding?

Mr. **Beuley.** According to agency officials, over $71,000 of the debt has been collected. Collection efforts are continuing to obtain the balance of the amount due to OICD.

CONTRACT AUDIT FUNDS

Mr. WHITTEN. For fiscal year 1987 how much do you propose to spend on outside certified public accountants hired under contract with OIG?

Mr. BEULEY. The 1987 budget as proposed will provide $1 million for contract audit work.

OVERDUE AUDITS

Mr. WHITTEN. Please provide a listing of any audits, overdue as of September 30, 1985, and a brief explanation why they were overdue.

[The information follows:]

AGENCY

DOLLAR VALUE

FARMERS HOME ADMINISTRATION

FmHA Assessment and Collection of User Fees (Audit Report 04099-52-Hy) - Issued November 21, 1984

$154 million

This audit recommended that FmHA assess user fees to recover its costs of making loans. In August 1985, the Under Secretary agreed to seek fee exemptions from the Secretary for certain program activities and to implement fees in other program areas. In response to this agreement, FmHA provided a preliminary time schedule; however, it did not identify areas it wishes to be exempt nor did it propose areas for charging fees. In a second response, dated March 13, 1986, FmHA provided a time schedule for implementing user fees for insured loans, but again did not identify specific insured loan programs and activities. Also, no time schedule for obtaining exemptions from the Secretary was stated. FmHA's response did adequately address plans for user fees on guaranteed loans.

This audit will be resolved upon receipt of a timetable for obtaining Secretarial exemptions and identification of insured loan programs and activities for which user fees are planned.

Nationwide Statistical Review, Newton County Office, Iowa (Audit Report 04011-466-KC) - Issued February 27, 1985

$266,510

FmHA had not responded to the audit report. The issues involved three rural housing borrowers who received excessive interest subsidies and two borrowers who were not eligible for rural housing loans. The report was resolved February 12, 1986.

Monitoring of Disaster Programs in Arkansas (Audit Report 04099-97-Te) - Issued February 7, 1985

$102,000

Three issues remained. (1) FmHA disagreed with our recommendation to revise emergency loan instructions to limit pasture losses to the lesser of forage needed to feed the borrower's livestock or forage lost due to the disaster. Borrowers received loss loans, based on pasture losses, even though sufficient forage was available for their livestock. (2) FmHA had not addressed our recommendation to tailor loan terms to the borrowers' repayment ability. Terms of 7 to 20 years were given whereas the borrowers' repayment ability showed shorter terms of 1 to 3 years were appropriate. (3) FmHA had not instructed three county supervisors to obtain liens on available assets and to account for mortgage property borrowers disposed. The report was resolved December 23, 1985.

AGENCY | DOLLAR VALUE

FOOD AND NUTRITION SERVICE

Evaluation of Food Processors and the National Commodity Processing System (Audit Report 27651-1-Ch) - Issued March 21, 1985.

- 0 -

Two issues remained: (1) the use of laboratory analysis to monitor processor operations; and (2) that all processors use a uniform discount system that ensures that the recipient agencies promptly receive the value of the donated foods contained in the end products.

To resolve the first issue, we needed to be informed of the policies and laboratory procedures FNS will develop to monitor processor operations. We worked with FNS to reach accord on adopting a uniform discount system and resolved the report.

City of Baltimore Food Stamp Program (Audit Report 27017-4-Hy) - Issued February 12, 1985

- 0 -

The issue was that the existing city systems would not contain social security numbers for the heads of household and all household members as required by program regulations effective January 1983.

FNS determined that the State Agency (SA) had developed an alternate interim procedure for checking duplicate participation by merging active Food Stamp files with the only automated Statewide file available, the Medicaid File. However, the existing medical assistance benefit file did not have the ability to cross-check the approximately 70,000 active non-public assistance (NPA) Food Stamp members.

We resolved this report on January 15, 1986, when FNS required the SA to develop an effective interim procedure for checking NPA cases for duplicate participation or sanction the SA for non-compliance with program regulations effective 3 years ago.

FOREST SERVICE

Payments to States from National Forest Receipts (Audit Report 08099-5-Hy) - Issued May 25, 1984

$12.8 million

The law requires that 25 percent of all monies received from each National Forest be paid to the appropriate States each fiscal year. We found that annual payments to States include advance deposits by timber purchasers pending removal of timber. We concluded that since these advance deposits were not yet earned, they should not be included in the payments to States. OIG recommended that these deposits be excluded from future payments to the States.

AGENCY	DOLLAR VALUE
The FS declined to accept the recommendation and said the current process is not inconsistent with the law. The Assistant Secretary supports the FS position. We continue to believe the process should be changed since it increases the Government's interest costs. The FS is developing a legislative proposal on payments to States which could negate our recommendation. However, the actual effect will not be known unless such legislation is enacted. A legal opinion will be requested if this issue cannot otherwise be resolved.	
Audit of Concessionaire Fee Calculations in the Intermountain Region (Audit Report 08623-2-SF) - Issued May 27, 1981	$52,000
The FS agreed to revise the ski area permit to increase the annual fee, as our audit recommended. The permittee appealed and the Chief decided that the fee is incorrect, but, based on verbal advice of the Office of the General Counsel (OGC), the FS lacks authority to unilaterally revise the permit. The verbal legal advice given during the appeal varies in our opinion somewhat with a previous written opinion provided by a regional OGC. OIG is working with OGC to obtain an interpretation of the appropriate laws. Resolution will be contingent upon the outcome of the interpretation.	
AGRICULTURAL RESEARCH SERVICE	
Audit of W. R. Moore Electric Company (Audit Report 40545-17-HY) - Issued September 20, 1984	$66,566
This audit resulted in a claim against the contractor who appealed to the Agriculture Board of Contract Appeals. We were awaiting the judge's decision to resolve the audit. This report has been resolved and closed.	
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE	
Indian Acute Distress Donation Program (Audit Report 03099-34-KC) - Issued December 20, 1982	$182,000
The issue was the establishment of claims for excessive animal feed distributions valued at about $182,000. Since the excess distributions were a result of actions by the Bureau of Indian Affairs (BIA), ASCS requested the BIA to make claims determinations or waivers. Because the BIA did not respond to repeated ASCS requests to establish the claims, the Secretary of Agriculture wrote to the Secretary of Interior asking for his aid to resolve the claims. On May 10, 1985, the Secretary of Interior advised that he had directed a review of existing records to obtain determinations on questioned contracts. He further advised that bills for collection would be issued where it was found that contract terms were not completed. Although the Secretary, in another letter to BIA dated	

July 30, 1985, tried to get the Department of Interior to adequately respond, this audit could not be considered resolved until demands for repayment were issued to the affected participants. The BIA had not responded to the July letter. This report has now been resolved and closed.

OFFICE OF INFORMATION RESOURCE MANAGEMENT

Review of the Proposed Upgrade of the Washington Computer Center (WCC) (Audit Report 58530-1-FM) - Issued October 19, 1984 $8 million

Office of Management and Budget (OMB) Circular A-121 encouraged the use of outside agencies in order to optimize the ADP resources when a computer facility had excess capacity. The Circular also provided that staffing resources cannot generally be added to support processing needs of external entities. We found that WCC upgraded it resources, in part, to meet the forecasted computer requirements of non-USDA users, rather than to fill an existing capacity void. In addition, technical assistance provided by WCC to USDA agencies would decrease as WCC's outside client base expanded due to the Circular hiring constraints. Accordingly, we recommended that the Department establish a policy that upgrades should not be enacted if the basis of the procurement is to meet outside needs. The Department noted that OMB has concurrently emphasized, however, the cross-servicing concept at the National Finance Center. We requested clarification from OMB on the impact of cross-servicing arrangements as related to the limitations imposed by the Circular. As a result, the audit remained pending OMB's response. This report has now been resolved and closed.

Mr. **Whitten**. How many whistleblower cases were opened, processed, and closed during fiscal year 1985, and how many of these were substantiated? Give several representative examples without, of course, identifying individuals.

[The information follows:]

During FY 1985, our office received 1174 complaints over the Hotline; 352 contained insufficient information to process; 822 complaints were opened/processed; 651 cases were closed; and 120 cases were substantiated.

Examples of substantiated complaints in FY 1985:

Allegation regarding subject in Newburn, North Carolina, not reporting her husband's income on her food stamp application was substantiated. The final amount of overissuance identified for recovery was $4,263.

Allegation regarding a subject in Memphis, Tennessee, receiving school lunch assistance for his 4 children, while earning $30,000, was substantiated. The children are no longer receiving free lunches.

Allegation regarding an FmHA contractor in Licking County, Ohio, not making necessary repairs to houses was substantiated. The contractor was debarred for 3 years. Complainant will use money in the supervised bank account for repairs.

Allegation regarding a Forest Service employee in Klamath, Oregon, running a "back-hoe" business on the side was substantiated. The individual resigned because of the possibility of a conflict of interest.

Allegation regarding Gunnison National Forest, Gunnison, Colorado, mismanaging money/receipts by not enforcing proper checks and reconciliation procedures was substantiated. The Forest Service has directed the responsible District Rangers to acquire necessary safekeeping facilities. Forest Service has also directed that all transfers between collection officers be done in person and that fee envelopes be opened and the money counted in the presence of 2 or more designated collection officers.

Allegation regarding Water District in Boyd County, Kentucky, misusing FmHA funds and giving preferential service to water customers when a water system was installed was substantiated. An OIG audit was conducted, and recommendations were made to FmHA regarding unsatisfactory service to the public, improper water line extension, inadequate reconciliation of engineering fees, and design problems in the water system. FmHA met with the consulting engineers and revised procedures to prevent similar problems from occurring in the future. FmHA took further corrective action on recommendations made in the audit report.

1985 SUITS FILED

Mr. **Whitten**. How many suits were filed by OIG in 1985, and what was the nature of these suits?

Mr. **Beuley**. Thirteen suits were filed on behalf of OIG during fiscal year 1985. The suits involved court actions to recover farm operating and farm storage loans and FmHA rural rental housing loans.

One case involved action to recover $745,000 in child care feeding program funds which were embezzled by a subject who set up "paper" companies. The subject had already plead guilty to the charge in Criminal Court.

RECOMMENDATIONS FOR LEGISLATIVE CHANGE

Mr. **Whitten**. In fiscal year 1985 how many of the IG's recommendations involved legislative action? Please list those recommendations and any subsequent action.

Mr. **Beuley**. During FY 1985, the Office of Inspector General issued 12 recommendations for legislative change.

[Additional information follows:]

FARMERS HOME ADMINISTRATION

Audit No. 50099-2-At (Released November 1984, SER) - FmHA Monitoring of Disaster Programs

"Implement loan limitation requirements so that applicants do not receive loan amounts in excess of actual dollar losses incurred. If necessary, seek legislative changes to implement these requirements."

This recommendation was resolved when we were notified that, at FmHA's request, the Senate version of the Farm Bill contained the necessary amendments to accomplish this. We were also notified that Under Secretary Naylor testified in favor of the amendment during Farm Bill markup. The recommendation was closed when the Food Security Act of 1985 was passed, even though the legislation did not contain the recommended change.

Audit No. 04641-1-KC (Released January 1985, GPR) FmHA Followup Review of Rural Housing Graduation Operations

"Provide, through procedural, regulatory or legislative changes, the authority for County Supervisors to prevent Rural Housing loan borrowers from accumulating unnecessary debts which become obstacles to graduation to private sources of credit."

The recommendation was resolved based on FmHA plans to implement the Portfolio Management System (PMS) which, among other things, would enable FmHA to identify and provide options to those borrowers in danger of becoming over-indebted. The PMS is still not functional; this recommendation may be reopened.

Audit No. 04099-52-HY (Released November 1984, HY) FmHA Assessment and Collection of User Fees

"Propose legislation that would impose user fees in accordance with P.L. 97-258 ("the user fee statute") and OMB Circular A-25 with the exception of benefits to individuals clearly identified as subsidies."

FmHA has responded that they are opposed to user fee legislation, and the recommendation remains unresolved. The matter has been elevated to the Department's audit resolution officials.

RURAL ELECRIFICATION ADMINISTRATION

Audit No. 09613-3-CH (Released September 1985, MWR) - REA Loan Making Policies for Electric Generation and Transmission Cooperatives

"Continue to seek legislation to redefine an eligible area, extending the proposal criteria to include G&T borrowers;" and

"Continue to seek legislative authority to establish user fees for borrowers of insured and guaranteed loans."

In its response to the audit, dated March 7, 1986, REA stated that the Agency's legislative proposal being prepared in connection with the FY 1987 budget submission would seek changes in both areas as recommended.

Audit No. 09614-2-Te (Released June 1985, SWR) Rural Electrification Administration Telephone Loan Making Policies

"Propose legislation to require a credit elsewhere test for loan applicants;"

"Propose legislation to remove the minimum annual loan requirement now required by law for the REA revolving fund and the Rural Telephone Bank;"

"Propose legislative changes to allow REA to recognize significant changes in population patterns which have occurred since initial borrower eligibility determinations were made, and thereby limit REA revolving fund and Rural Telephone Bank loans to the improvement of rural telephone service. Require that loan funds used to improve urban areas be obtained through non-Federal credit services;" and

"Propose legislation that would remove from the REA Act the density test now required to qualify borrowers for loans from the Rural Telephone Bank."

REA agreed with OIG recommendations, but is pursuing budgetary legislative proposals to phase out the telephone program by 1990. The recommendations were resolved based on the Administration's plan; although they were not accepted in FY 1986, they are being proposed again for FY 1987. The recommendations will be closed, or reopened, based on final Congressional action.

In the meantime, REA has reduced the minimum annual loan required by law, and has proposed changes which would limit the availability of funds to urban areas.

COOPERATIVE STATE RESEARCH SERVICE

Audit No. 40606-2-At (Released January 1985, SER) - Cooperative State Research Service - Management of Research:

"Determine if it would be appropriate for CSRS to sponsor an amendment to the Hatch and Evans-Allen Acts to delete the portions allowing withdrawal of quarterly allotments and to include the requirement that Federal cash management policies be followed."

CSRS determined that it would not be appropriate to sponsor an amendment to the Hatch and Evans-Allen Acts to delete the portions allowing withdrawal of quarterly allotments and to include the requirement that Federal cash management policies be followed. However, CSRS agreed to require recipients to follow the cash management policies prescribed by Attachment I to OMB Circular A-110 and Subpart L, USDA-UFAR, both of which require the recipients to minimize the time elapsing between the transfer of funds and the recipient's disbursements. The recommendation was closed.

FOOD AND NUTRITION SERVICE

Audit No. 27648-2-At (Released January 1985, SER) - Audit of FNS Management of Food Stamp Claims

"Propose legislation to amend Section 13(b)(2)(A) of the Food Stamp Act of 1977 to require States to collect payments for administrative error (AE) claims from households who fail to respond to notice and who are currently participating in the program by reducing the household's food stamp allotment."

This recommendation was closed based on FNS's April 1, 1985 response which stated:

"We seriously considered this proposal when we developed our legislative agenda for this year. In light of other legislative priorities, this item was scheduled for priority consideration on next year's agenda."

"Many States are now having promising results by presenting voluntary recoupment as a payment option to recipients with State-caused overpayments. We will be closely monitoring these results in preparation for reconsideration of this issue. In the meantime, we will be encouraging other States to refine this aspect of their claims collection efforts."

USDA OPERATIONS

Audit No. 50099-20-HY (Released March 1985, HY) Assessment and Collection of User Fees Within USDA

"Seek legislative authority to require all agencies to deposit trust fund account reserves in the U.S. Treasury in an effort to ensure consistency throughout the Department."

The Department's response stated that each trust fund must be considered on a case by case basis and the uniformity among programs and agencies was not a significant factor. During the resolution process, OIG learned that the Agricultural Marketing Service (AMS) received authorization from P.L. 98-403 to invest trust fund reserves derived from AMS voluntary grading and inspection service fees. The audit recommendation is closed.

FUNDING OF STEP INCREASES AND INFLATION

Mr. **Whitten**. Although your fiscal year 1987 budget request is slightly less than fiscal year 1986, the projected staff years remain the same. With projected step increases for General Services scale employees and inflation, how can you continue the same level of staff years?

Mr. **Beuley**. We expect to offset the costs for step increases and inflation with employment lapse funds. Although we plan the same staff level, in reality positions are generally vacant a short time before they can be refilled. Since we have a turnover of 15-20 percent per year, we anticipate this lapse time to provide the funds we need.

Mr. **Whitten**. Please provide a breakdown of the FTE's located in the OIG's seven regional offices.

California	109
Georgia	129
Illinois	107
Maryland	90
Missouri	145
New York	71
Texas	93
Total	744

OFFICE AUTOMATION UPDATE

Mr. **Whitten**. Please provide the Committee a status report of the OIG office automation procurement efforts. Please include cost to date, total projected cost, timeframe, and any adjusted cost/benefit ratio.

Mr. **Beuley**. We will have the majority of all equipment deliveries and begin nationwide implementation of the OIG automation project this year. All OIG equipment currently ordered should be operational by mid-summer. Current leased word processing equipment will be released as these systems become operational and all conversions completed. We expect to perform some system refinements and, depending on the performance of these systems, procure additional processors to support the workload. Further, all existing microcomputers are targeted to be connected to the new systems, either by direct connection or telecommunications dial-up. There may be other enhancements needed as the system is developed from the initial configuration on the Department contract to the final polished system we expect to have in place in FY 1987. Finally, to reach our goal of overall integration of all OIG computing resources, we expect to tie our non-compatible computer equipment, primarily our IBM System 36 minicomputers, together with the equipment.

OIG has obligated $1.7 million (including about $200,000 for our new automated investigative indices retrieval system) for ADP hardware, software, and training. A total of $1.2 million was obligated in FY 1985. We estimate that $1.0 million will be spent in FY 1986. The total systems life cycle costs is projected to be $6.1 million; our original estimate was $6.6 million.

Our revised Cost/Benefit analysis based upon the new cost estimates and updated agency statistics shows a ratio of 4:1. The derived benefits were reduced as a result of using the OIG FY 1985 reported quantities and savings and claims results from our audit and investigations of USDA's programs. Further reductions of projected benefits were as a result of more conservative projections of the impact of redirection of some of our administrative savings for increased audit and investigative applications.

CONSERVATION PROGRAMS

Mr. **Whitten**. Have you conducted any audits to assure that the conservation programs, particularly the Agricultural Conservation Program—ACP—and the Watershed and Flood Prevention Programs, are being carried out as directed by Congress?

Mr. **Beuley**. OIG just completed an audit of the Conservation Reporting and Evaluation System—CRES—which was developed by the Agricultural Stabilization and Conservation Service—ASCS—and the Soil Conservation Service—SCS—to measure the effectiveness of conservation measures carried out under programs such as the Agricultural Conservation Program. The audit reported that not all data accumulated under CRES was reliable, and that ASCS county committees were not required to use CRES data to set practice approval priorities or for other means. Procedures had not been developed requiring CRES to be used for specific purposes. ASCS is now working with SCS to address the conditions OIG reported. In addition, the ACP Program is audited when ASCS State and County Offices are audited throughout the year.

OIG completed an audit of the Flood Prevention Program—FPP—in 1984 and issued two reports in early 1985. One report was issued to the Assistant Secretary for Natural Resources and Environment and reported that, the SCS and the Forest Service—FS—needed to update the inventory of remaining FPP work, identify priority measures and projects, eliminating those that are no longer feasible, and the Department should review program direction, and develop and implement strategies to ensure completion of the higher priority work. The second report was addressed to the Chief, SCS. It dealt with compliance items, such as the need to reduce cost-share rates in certain instances, that SCS should address.

AUDIT REFERRALS TO INVESTIGATIONS

Mr. **Whitten**. How many referrals did the Office of Audit make to the Investigative Office last year? How many of these are actually being followed up on?

Mr. **Beuley**. Twenty-nine formal referrals were made by Audit to Investigations during fiscal year 1985. Of that number, twenty-three were opened for investigation and six were declined.

Mr. **Whitten**. Mrs. Smith.

Mrs. **Smith**. Thank you, Mr. Chairman, and welcome to all of you.

COMPUTERIZATION

Since the Department and the states that administer USDA programs have been moving rapidly toward computerization, could you comment about how this works for us, as you perform your audits and investigations in this kind of an environment?

Mr. BEULEY. We definitely have been alert to the move toward computerization to try to speed up the process and get better delivery. To cope with that ourselves, we reorganized about a year ago to set up a special group, a financial management systems group, that concentrates on accounting systems and systems being developed in the Department. This group will look for controls and develop techniques that will show exception items and the trend of problems or potential frauds.

We have and are being trained on equipment that will be used in the ACSC offices so we can go in and analyze what is going on there to determine where we should do our audit or investigation.

We also increased our own staff's capability of working with computers. We have microcomputers now. As a matter of fact, we have trained our staffs in the last month. So computers will help the audit and investigative staff to do more in analysis and do some of the jobs quicker through the use of the microcomputer.

FCIC PROGRAMS

Mrs. SMITH. Thank you for that answer.

I believe last year Mr. Graziano said increased audit and investigative coverage would be afforded the crop insurance program. Has it been possible to do this?

Mr. BEULEY. Yes. As a matter of fact, we have a major Departmentwide audit that is in the insurance area relating to reinsurance operations, and we have two efforts underway.

The first, we are looking at the Reinsurance Division in Kansas City with our objectives being to review the internal controls in the ADP system, the rates charged and any underwriting profits of the reinsurance company and the payments made to reinsurance companies for loss claims.

The second effort we are looking at is the operational level. We are looking at the effectiveness of FCIC's controls over reinsurance companies and also the accuracy of the billings and claims of the reinsurance companies and the reasonableness of the financial transactions between FCIC and the reinsurance companies.

Also our investigative efforts have about doubled in the FCIC area, from about 10 to about 20. So we are giving concentrated effort in the insurance area.

CONTROLS RELATIVE TO FARM BILL

Mrs. SMITH. Well, I am very much interested in that. Now, I notice, Mr. Beuley, on the first page you say you are giving assistance to the Department in establishing and strengthening internal controls relative to the farm program and then on the second page you say you believe in early detection and prevention, and we certainly do. Then at the top of the third page you comment about the dairy herd termination program.

Did you have any voice at all in the decision to have about two-thirds of those cattle bought out in the first period instead of distributing them across the 18-month period as Congress had intended and did you have an opportunity to voice concern about the kind of disaster this would cause to the beef-producing industry?

Mr. **Beuley.** We didn't get into that particular point. I will let Mr. Adkisson go over the key points we looked at in the dairy herd buyout.

Mr. **Adkisson.** First of all, we went out early to make sure that dairy folks were aware of the program. As Mr. Mizell said in earlier testimony, as far as information is concerned, we went out to the county level to insure that the dairy folks were aware of the provisions of the program.

Mrs. **Smith.** Could I ask you just one question on that. Did you also go to the county level to make sure that the beef producers were aware of the way this program was going to be implemented, what it would do to them?

Mr. **Adkisson.** We concentrated on the dairy provisions in the program. As you well know, the Farm Bill provided for, I believe, 400 million pounds of red meat to be purchased as a part of the Farm Bill to offset the market depression that the dairy herd buyout program would cause.

The bill also provided for periodic sales of those dairy herds over an 18-month period with basically one third in each of the three 6-month periods.

Mrs. **Smith.** Do you folks know anything about why that program was not followed?

Mr. **Adkisson.** To my knowledge from the information that I have at this point the law was followed as far as allocating the number of cattle that would be sold within each of the six-month periods.

Apparently what has happened—and this is purely conjecture on my part at this point—but what has happened is that in the first six-month period the total allocation, all the dairy people apparently are selling their cattle in the early part of the six-month period rather than spreading it over the entire six-month period.

Mrs. **Smith.** Do you know anything about why the Secretary of Agriculture wasn't aware of this and didn't move to prevent a situation where we could have such a disastrous fall in beef prices? You know, he issued a news release which said it won't make any difference, just three or four percent difference in the supplies and don't worry, I am going to buy 400 million pounds of meat, but he wasn't ready to buy the 400 million pounds when the price turned into a disaster.

If he had bought it that day it would have made a lot of difference. If he had said that day we are going to put $50 million into selling those live cattle to Mexico we wouldn't have had a $25 million loss in my district already.

Mr. **Adkisson.** I can't——

Mrs. **Smith.** I am not blaming you. I am just trying to find out what kind of a program resulted in such a mess. You are not to blame for it, I am sure.

Mr. **Adkisson.** I was going to say I am not going to question the wisdom of Congress. They passed the Farm Bill and we tried our best to see that it is complied with.

Mrs. **Smith.** I understand.

What work has OIG undertaken on the conservation program?

Mr. **Beuley**. OIG just completed an audit of the Conservation Reporting and Evaluation System—CRES—which was developed by the Agricultural Stabilization and Conservation Service—ASCS—and the Soil Conservation Service—SCS—to measure the effectiveness of conservation measures carried out under programs such as the Agricultural Conservation Program. The audit reported that not all data accumulated under CRES was reliable, and that ASCS county committees were not required to use CRES data to set practice approval priorities or for other means. Procedures had not been developed requiring CRES to be used for specific purposes. ASCS is now working with SCS to address the conditions OIG reported. In addition, the ACP Program is audited when ASCS State and County Offices are audited throughout the year.

OIG completed an audit of the Flood Prevention Program—FPP—in 1984 and issued two reports in early 1985. One report was issued to the Assistant Secretary for Natural Resources and Environment and reported that, the SCS and the Forest Service—FS—needed to update the inventory of remaining FPP work, identify priority measures and projects, eliminating those that are no longer feasible, and the Department should review program direction, and develop and implement strategies to ensure completion of the higher priority work. The second report was addressed to the Chief, SCS. It dealt with compliance items, such as the need to reduce cost-share rates in certain instances, that SCS should address.

I have no further questions, Mr. Chairman.

Mr. **Whitten**. Mr. Akaka.

SUGAR FRAUD

Mr. **Akaka**. Thank you very much, Mr. Chairman.

One of your responsibilities is to look for potential abuse and fraud. I would like to go back to June 21, 1985, when the Customs Service uncovered the extensive scheme of fraud by sugar brokers and refiners of foreign sugar who were purposely evading export duties and thereby marketing sugar illegally at large profits.

It was estimated by the Customs Service at that time that 250,000 tons of imported sugar was used at that time and there was a loss of about $15 million to the Federal Treasury and duty revenues at that time. The Customs believed at that time that that was the largest fraud conspiracy it had ever investigated.

My question to you is, what role did the USDA IG play in the investigation into the sugar drawback fraud?

Mr. **Beuley**. We worked jointly with U.S. Customs on this particular investigation. It was a joint strategy by OIG and customs agents. So far in this particular fraud scheme we have indicted 21 individuals and 19 sugar brokerage warehouse and shipping companies and we have identified the potential loss to date so far on those to about $18 million to $20 million. The investigation is still ongoing.

Jeff, do you have any other comments on that you would like to make?

Mr. **Rush**. Yes, sir.

The investigations are going on both in New York and New Orleans. We are just about finished in Miami. The amounts are substantially larger than we estimated at the time when the first news release was made. We are now looking at sugar diversions that will total somewhere between 400 million and 700 million pounds just during the period of January of 1980 to June of 1985, the scope of this investigation.

Mr. **Akaka**. Can you explain to me the exact nature of the fraud scheme?

Mr. **Rush**. From the standpoint of background, the re-export program that was passed by the Congress to provide some relief for refiners in that refining capacity in the country was not being utilized, particularly in light of the difference between the world price for sugar and domestic price.

The Foreign Agricultural Service has a licensing program which permits individuals to bring in non-quota sugar to be refined and to be removed from the country within 90 days.

We monitor the licenses primarily through a review of documents submitted to the Customs Service and the Department of Commerce.

What was discovered in 1984 by officials of Customs was that much of the documentation was suspicious. The bills of lading primarily had been altered. In certain instances, documents had been submitted that would indicate large quantities of sugar had been exported, but they were being loaded on small vessels, in some cases either leisure craft or very small vessels that could not be used to export sugar.

So since that time we have been working closely with the Customs officials looking at the drawback program and the re-export program in trying to identify as much of the diverted sugar as possible.

PREVENTION OF SUGAR FRAUD

Mr. **Akaka**. Have you taken any steps to prevent this type of fraud?

Mr. **Rush**. We have made some recommendations. You can't absolutely prevent this kind of fraud. What we have done is, working closely with the Foreign Agricultural Service, we have gotten a change in the rules which increases the money penalty for those who would fail to re-export within 90 days. We are working closely with our own general counsel and Customs to get a better sense of the kind of bona fides, the documents that are used before drawbacks are paid.

We have encouraged the Customs Service to rethink their program where they were making earlier drawbacks than necessary. They had an expedited program. They are now slowing the program down and taking a very close look at the documents so we think that the large problems that we found from 1980 to 1985 have been addressed.

Mr. **Akaka**. Would you have an estimate of the possible losses to the domestic sugar industry because of this fraud?

Mr. **Rush**. We have been unable to identify any real loss to producers. I guess the easiest way to view the problem of diverted sugar on domestic markets is to try to find out how much of the price supported sugar was forfeited to the government. In each of the years we are looking at in our investigation, we found no sugar forfeited, so apparently American farmers and producers are able to dispose of the quantities of sugar that they produced inspite of these illegal diversions.

ERADICATION OF MARIJUANA

Mr. Akaka. Thank you very much for that.

Another question I have has to do with your initiative and your role in eradicating marijuana from Federal lands. My question then would be what role have you played in this?

Mr. Beuley. Basically our role, sir, is to coordinate with the Forest Service, ASCS and other agencies in a cooperative effort to educate people on the marijuana problem.

As a matter of fact, we have developed posters—we have small size posters which I can leave for the committee, this size and a larger one about four times this size, which we have asked ASCS, FmHA and FCIC to put in their county offices so that people will be a little more sensitive and aware of the situation. We have a toll free number, and a local number for someone to call and report when they know that a farmer is growing or storing marijuana.

The Forest Service in early 1982 found and destroyed something like a quarter of a million plants of marijuana in the forests.

Our role is more coordinating and working with them to promote the education program.

The secondary role that we have had is that we discovered a loophole in the old bill where penalties for marijuana growing on a farm; you had to catch someone in the harvesting of it. Therefore, we suggested provisions in the new Farm Bill to include storing and producing and it has some very harsh penalties that will take someone out of all agriculture programs for five years if they are guilty of these offenses.

Mr. Akaka. What would happen to the farmers if they were caught growing marijuana? Are there any sanctions that might be used against them?

Mr. Beuley. Under the new Farm Bill if they are found guilty they could be denied participation in any of the agricultural programs for up to five years. It is quite a penalty.

Mr. Akaka. I know in some of the reports you have been given credit for your cooperation with DEA in some of these efforts and I certainly commend you for that.

Mr. Beuley. Thank you.

Mr. Akaka. As you know, in Hawaii, we have quite a bit of that. Fortunately they are not regular farmers. They are imported farmers who are making lots of money, but I am glad that you are taking steps in prevention of the growth of marijuana.

Thank you very much.

Thank you, Mr. Chairman.

Mr. Whitten. Mr. Watkins was unable to be here today but he has some questions he would like answered for the record.

ALLEGATIONS OF ABUSE AND WRONG-DOING

Mr. **WATKINS**. During this time of economic crisis in rural areas, do you find that allegations of abuse and wrong-doing are more wide-spread?

RESPONSE. There does seem to be a gradual increase in allegations of abuse and wrong-doing.

Mr. **WATKINS**. What efforts are being made by the Inspector Generals office or suggestions that are being made to the Secretary that would stop embezzlement such as occurred in Oklahoma this year when a county FmHA supervisor was convicted of this crime?

RESPONSE. No special procedures are deemed necessary to preclude embezzlements by FmHA county supervisors. The best preventative measure is the use of internal controls which would prevent any one individual from handling all aspects of a loan transaction. The Oklahoma case was first disclosed when a county office employee became suspicious of the special handling given to certain loans by the county office supervisor. Under normal FmHA procedures it would be unusual for a county supervisor to handle all aspects of the processing of a loan.

Mr. **WATKINS**. Is this occurrence typical to what we may see in the future with county FmHA offices? Are more such cases expected in the future?

RESPONSE. The case was an isolated example both in the manner of the embezzlement and the amount of monies stolen. We do not expect that such embezzlements will become typical. We believe that such cases will be brought to our attention in the same way that the Oklahoma case was referred to us—by FmHA personnel utilizing procedures and controls now in force.

Mr. **WATKINS**. Based on your experience, are tougher control measures needed or is this an isolated incident that has occurred?

RESPONSE. Unlike the Oklahoma case, most embezzlements we uncover involve relatively small amounts of money. These thefts usually involve the embezzlement of loan repayments and are best prevented by maintaining a separation of duties over cash collections. Our recent audit of collection procedures found that a separation of duties was frequently not practiced by FmHA staff nor even required by FmHA procedures. FmHA responded to our recommendations by requiring separation of collection duties for offices with more than two employees and requiring State and District personnel to periodically review collections in offices with less than three employees.

CURBING FOOD STAMP PROGRAM VIOLATIONS

Mr. **WATKINS**. What is being done to curb violations of the Food Stamp Program?

RESPONSE. Actions have been initiated, and will continue to be developed on several fronts, to reduce the incidence of fraud and waste in the Food Stamp Program. Beginning in September 1986, States are to initiate comprehensive computer matching activities to identify individuals who underreported their household income for a number of welfare-type programs. The deficit Reduction Act of 1984 mandated such actions for the Food Stamp Program, Aid to Families with Dependent Children, Medicaid, and Unemployment Compensation. Previous OIG audits have shown that wage matching is an effective means of identifying underreported income and the resulting ineligible participants. OIG currently has an audit in process reviewing wage-matching activities in 12 States.

The Food and Nutrition Service (FNS) operates an automated retailer tracking system which seeks to identify food store retailers who might abuse the Food Stamp Program. OIG evaluated this system and recommended a redesign to group and compare food retailers' redemption activities with those having similar characteristics in similar environments. The redesign should better identify problem retailers.

Increased attention has been placed on improving household certification activities. The Omnibus Reconciliation Act of 1982 mandated that by 1985, States would have a payment error rate no greater than 5 percent or face Federal sanctions. FNS' quality control system evalutes program monetary losses due to households receiving excess benefits. Between 1981 and 1984, the nationwide payment error rate dropped from 9.89 percent in 1981, to 8.62 percent in 1984. Facing the possibility of fiscal sanctions, States have made progress toward the 5 percent goal. OIG continues to monitor FNS' quality control system.

OIG has also audited how well States establish claims and collection against households who received excess program benefits. We estimated a $4.3 million increase in monthly collections by State agencies if the amount owed the program was offset against the household's monthly benefits. FNS reported improvements in getting allotment reduction procedures in place and using automated data systems to better manage food stamp claims. Improvement in claims activities will act as a deterrent to those who might try to abuse the program. Currently under review by OIG, is an examination of the States' automated accounting systems for claims and how they might be improved to better control claims processing, reporting and increase collections.

Additionally, where fraudulent activities are identified or alleged, they are referred to OIG investigators or, as appropriate, to other Federal, State, or local agencies for criminal investigation and ultimate prosecution. We believe that these activities, to some extent, deter others from committing similar offenses.

[Statements follow:]

FOR RELEASE ONLY
BY THE HOUSE COMMITTEE
ON APPROPRIATIONS

OFFICE OF THE INSPECTOR GENERAL

Statement of Robert W. Beuley, Deputy Inspector General, before the House Appropriations Subcommittee on Agriculture, Rural Development, and Related Agencies.

Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you today.

The Department of Agriculture must cope with a very dynamic environment in view of the current farm economy, the new Farm Bill, the balanced budget legislation, and efforts now in process to automate major activities within USDA.

Our role in this changing environment is not only to deal with current problems but to keep abreast of the proposed changes and to look for areas that are potentially vulnerable to fraud, waste and abuse. I have assembled a team to evaluate the impact of these new changes on the Department's programs and to develop a strategy for the Office of Inspector General's audit and investigative efforts during fiscal year 1986 and beyond.

One of the main purposes of this evaluation will be to provide early assistance to the Department in establishing and strengthening internal controls in the Farm Bill's implementing regulations. The task team will also be alert to provisions of the Bill that have an impact on more than one program to ensure such matters are considered during Department deliberations. Another purpose of this effort will be to develop a short and long range OIG plan for reviewing the programs at the various operating levels. We will conduct similar reviews on modifications that are made in Departmental programs as a result of implementing reductions required by the balanced budget legislation.

The task team has made a number of recommendations to preclude duplicate participation in more than one county; improve agency procedures for reviews of participants' compliance with program requirements; and to better ensure that payments from one program are used to repay debts owed by the same participant under another program.

We have also informed the Department of areas where decisions will be needed to provide for a consistent application of program benefits. These concern:

- Loans to borrowers which could increase the production of commodities intended for control under other programs.

- A provision which requires the Department to purchase a minimum amount of red meat without a corresponding relation to the amount of product resulting from slaughter under the Dairy Herd Termination Program.

- The need for cross compliance in all related programs to better control surplus commodities and soil erosion.

The task team identified a number of areas where increased attention by OIG is warranted. We believe that early detection and prevention are of greater value than attempting to recover funds once disbursed. This early coverage will concentrate on:

- The Dairy Herd Termination Program to evaluate the establishment of producer milk bases, controls over the handling of bids, and inventories of cattle scheduled for disposition,

- The Conservation Reserve Program to evaluate the methods used to determine land eligibility and the propriety of bids, and

- The Production Adjustment Programs to determine whether farm bases and yields have been established correctly under new provisions of the Farm Bill, farms are properly constituted, and advance payments are properly controlled.

We plan to provide Department managers with an assessment of these critical implementation provisions in time for adjustments to be made if misunderstandings exist at the State and County levels.

Our long term plans call for coverage of program compliance by participants, the implementation of program agencies' internal review procedures to determine participants' compliance, and the adequacy of controls over program payments. Additional coverage is being planned to evaluate the establishment of world market prices for use under the Rice and Cotton Loan Programs. Coverage of Farmers Home Administration programs will include such critical areas as the controls which will allow for prompt handling of loan applications without a decrease in sound loan making practices and safeguards to ensure that the new claims settlement provisions are not abused.

Even with the current concentration on programs affected by the Farm Bill, our overall program for FY 1986 and 1987 will contain a balanced coverage of ongoing Department programs such as food stamps and meat and poultry inspection as well as key administrative areas such as personnel, procurement, cash and debt management.

Also, the impending reductions in USDA programs and the related diminishment of the number of employees associated with these programs are of concern to OIG from a workload standpoint. It has been our experience in the past that when programs are eliminated or phased down, our workload increases or remains constant rather than decrease. Close out audits and investigations will continue to demand our attention for sometime in these programs.

Now, I would like to briefly discuss some of our specific efforts in the Department's programs.

FARMERS HOME ADMINISTRATION (FmHA)

With the continuing financial problems of farmers, this past year has been another difficult one.

Rural Housing Interest Subsidies

Our Nationwide statistical audit estimated that 30 percent of interest credit agreements (ICAs) executed in FY 1983 contained understatements of income and other errors at the time of approval which caused excessive interest subsidies of about $32.2 million for the 1-year periods covered by the ICAs. These errors are attributable to insufficient controls to disclose unreported applicant income, obtain accurate income data from employers, and ensure the accuracy of computations. Although regulations were changed to require annual ICA renewals, excessive subsidies continue. As a new approach, we recommended that FmHA seek cooperation with State agencies that administer unemployment compensation programs to verify wages for all adult household members before executing initial and renewal ICAs. FmHA is currently testing the use of State agency wage data in one State.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE (ASCS)

Commodity Credit Corporation (CCC)

Payment Limitations

An OIG review performed in eight states found that nearly one half of the entities reviewed did not qualify as separate "persons" for purposes of the $50,000 price support and production adjustment payment limitation for crop year 1982 and 1983. These entities were scheduled to receive payments for those years totaling $1.7 million, all in excess of the payment limitation We recommended that ASCS require additional information from producers on how new entities will be financed and operated; obtain profit and loss statements and other partnership or corporate information; provide computer-generated exception listings showing recipients of payments exceeding the maximum limitation by address; and, collect the excess payments made. The Food Security Act of 1985 continues the $50,000 payment limitation provision. OIG will continue to monitor and review this vulnerable area.

Marijuana

Based on recommendations by OIG, language was included in the Food Security Act of 1985 which provides that any person who is convicted under Federal or State law of planting, cultivating, growing, producing, harvesting or storing a controlled substance in any crop year shall be ineligible for program benefits for that year and the four succeeding crop years. The new legislation denies benefits not only to participants of ASCS programs but to FmHA loan borrowers and FCIC programs.

FOOD AND NUTRITION SERVICE (FNS)

Food Stamp Claims

We examined efforts by the respective States to establish claims and to make collections against food stamp recipients that were ineligible or received excess program benefits. OIG estimated a $4.3 million increase in monthly collections by State agencies if allotment reduction provisions were fully implemented. We also highlighted the need for States to pursue backlogs of claims totaling over $200 million. The Food and Nutrition Service has reported improvements in getting the allotment procedures in place and the use of automated data systems to better manage food stamp claims.

Retailer Tracking System

A second major program area audited by OIG relates to the automated system by which FNS seeks to identify food store retailers who might be abusing the Food Stamp Program. Approximately 235,000 retailers and wholesalers nationwide, redeem food stamps. We recommended the redesign of the automated retailer tracking system which would group and compare retailers' redemption activities having similar characteristics in similar environments. In addition, we pointed out the need to develop detailed procedures for review and followup actions on pertinent reports generated by the retailer tracking system. FNS was aware of needed improvements to the system and has taken action to improve the means of identifying retailers that might be abusing the Food Stamp Program.

Wage-Matching

OIG continues to examine wage-matching efforts to identify food stamp recipients that fail to report their total household income to the eligibility workers. Audits in the past have proven that wage-matching is a viable tool of preventing abuse of the Program. Currently, audit efforts are examining wage-matching activities in 12 States. We believe improved wage-matching will make significant contributions in preventing individuals from obtaining improper amounts of food stamps.

RURAL ELECTRIFICATION ADMINISTRATION (REA)

During 1985, we completed audits of the Telephone Loan Program and the Electric Generation and Transmission (G&T) Cooperatives Loan Program. We estimated that REA made over $1 billion in subsidized loans to telephone borrowers who could afford private financing or less subsidized REA financing. These loans will cost the Government over $500 million over the life of the loans. We also found that REA lends to subsidiary companies based on a subsidiary's financial condition without considering the parent company's financial strength and the fact that managerial and financial control are exercised by the parent company. In addition we found that subsidiary companies paid out higher dividends than independent companies or cooperatives thus depleting their capital. This allowed the subsidiaries to remain eligible for subsidized REA loans. REA has agreed to revise its dividend policy.

Also we found that REA approved construction loans of over $3.1 billion, to five of eight G&T borrowers we reviewed, based on power requirement studies that were either outdated or did not fully support the need for the loans. REA has formulated proposed regulation changes to require more accurate and up-to-date power requirement studies.

EMPLOYEE MISCONDUCT

The Department employs over 100,000 people. The integrity of our workforce is essential if we are to achieve greater economy and efficiency in the administration and operations of the Department's programs. During fiscal years 1984 and 1985 combined, my staff devoted over 10,000 workdays investigating such cases. This trend is likely to continue, particularly in those cases involving personnel who are employed either to make loans and collect repayments or to regulate the programs where we serve as inspectors or graders.

Recently the Director of USDA's Office of Personnel joined me in a program to train a number of USDA employees who would be qualified to investigate so-called minor employee misconduct complaints. During fiscal year 1985, we were able to train 78 employees from 17 different USDA agencies who are now available to assist my staff.

AUTOMATED DATA PROCESSING (ADP) SECURITY

The development of automated information processing initiatives within the Department requires a great deal of our resources. The main areas we evaluate are the feasibility and cost effectiveness of proposed projects, the manner of procurement, and design and development of the automated systems to ensure proper controls are in place. Our efforts in this area are mainly preventive.

Non-Federal Systems

With the ever increasing use of computers to process data and manage activities, the security of the data and the equipment used are of great concern. During the year we performed a review of the security over Non-Federal computer systems that process data on the major programs of the Food and Nutrition Service (FNS) administered by State (and local) agencies. In fiscal year 1984, FNS made about $12 billion in benefits available to the State Agencies for disbursement to individual recipients. OIG reviewed 13 Non-Federal computer systems which processed about 20 percent of FNS-funded benefits disbursed in FY 1984. These benefits were disbursed monthly to an average of over 5 million program participants. We found security weaknesses in all 13 systems.

Some of the more serious weaknesses concerned inadequate controls over physical security, thus permitting unrestricted access to the computer hardware, and inadequate software controls which could enable persons to improperly manipulate data and payments. Our analysis of the inherent risks involved (large sums of money; existence of third party beneficiaries; payment of entitlement monies; degree of decentralization) make it apparent that the area is highly vulnerable to fraud, waste, or abuse.

FNS concurred with our recommendations to coordinate with the Office of Finance and Management and the Office of Information Resources Management within the USDA, and the Office of Management and Budget, and other Federal agencies to first establish, and then ensure compliance with, minimum ADP security standards for Non-Federal entities which process Federal data.

Federal Systems

During the year we conducted audits of the security and management of the Kansas City Computer Center (KCCC), Fort Collins Computer Center (FCCC), and National Finance Center (NFC). We found security weaknesses at the KCCC pertaining to access controls, input/output controls, security plans, training, and inspections, and in the area of physical security. In addition, we found that data access controls at NFC and FCCC needed to be strengthened because not all passwords and identification codes had been changed in a timely manner. The Centers generally concurred with our recommendations and have taken or initiated corrective action.

FY 1985 OIG MONETARY RESULTS AND BUDGET REQUEST

During FY 1985 OIG issued 795 audits and 1,223 investigative reports. As a result of our investigations, 570 indictments and 626 convictions were obtained, and 21 suits were filed. Recoveries, collections, savings, fines, restitutions and claims totaled $30 million. The audits resolved during FY 1985 resulted in disallowances and claims of an additional $43.9 million. FmHA, ASCS, and FNS are the agencies with large dollar funding with a higher degree of vulnerability to fraud, waste and abuse in implementation of their programs. As a result, OIG expends nearly two-thirds of its resources in the programs of those agencies. The FY 1987 budget request for the Office of the Inspector General is $46.3 million.

This concludes my statement, I will be glad to respond to questions from the Committee.

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OFFICE OF THE INSPECTOR GENERAL

Purpose Statement

Pursuant to the Inspector General Act of 1978, the Office of the Inspector General:

(1) provides policy direction and conducts, supervises and coordinates all audits and investigations;

(2) reviews existing and proposed legislation and regulations and makes recommendations to the Secretary and Congress regarding the impact such initiatives will have on the economy and efficiency of the Department's programs and operations, and the prevention and detection of fraud and abuse in such programs;

(3) recommends policies for and conducts, supervises or coordinates other activities in the Department whose purposes are to promote economy and efficiency or prevent and detect fraud and abuse;

(4) recommends policies for and conducts, supervises or coordinates relationships between the Department and other Federal, State and local government agencies concerning; (a) promoting economy and efficiency; (b) preventing and detecting fraud and abuse; and (c) identifying and prosecuting people involved in fraud or abuse; and

(5) keeps the Secretary and the Congress fully and currently informed about fraud, other serious problems, abuses and deficiencies in Department programs and operations, recommends corrective action, and reports on the progress made in correcting the problem.

The Office of the Inspector General is headquartered in Washington, D.C., and has regional offices in the following cities: New York, New York; Hyattsville, Maryland; Atlanta, Georgia; Chicago, Illinois; Temple, Texas; Kansas City, Missouri; and San Francisco, California. As of September 30, 1985, total employment was 830 including 815 full-time and 15 other employees. There were 147 employees located in Headquarters and 683 located in the field.

OFFICE OF THE INSPECTOR GENERAL

Available Funds and Staff-Years

1985 Actual and Estimated, 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Office of the Inspector General..............	$46,286,000	885	$46,495,000	910	$46,321,000	910
Obligations under other USDA appropriations:						
FNS Contracts.......	30,282	--	--	--	--	--
Total, other USDA Appropriations.......	30,282	--	--	--	--	--
Total, Agriculture Appropriations......	46,316,282	885	46,495,000	910	46,321,000	910
TOTAL, OIG...........	46,316,282	885	46,495,000	910	46,321,000	910

Full-time Equivalent Staff-Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling............	851	880	880
Non-ceiling........	34	30	30
Total............	885	910	910

OFFICE OF THE INSPECTOR GENERAL

Permanent Positions by Grade and Staff-Year Summary
FY 1985 and Estimated FY 1986 and 1987

Grade	1985			1986			1987		
	Headquarters	Field	Total	Headquarters	Field	Total	Headquarters	Field	Total
Executive Level IV	1	--	1	1	--	1	1	--	1
ES-5	1	--	1	1	--	1	1	--	1
ES-4	4	--	4	4	--	4	4	--	4
ES-3	1	--	1	1	--	1	1	--	1
ES-2	1	--	1	1	--	1	1	--	1
GS/GM 15	15	12	27	14	12	26	14	12	26
GS/GM 14	28	21	49	28	21	49	28	21	49
GS/GM 13	44	87	131	44	89	133	44	89	133
GS-12	37	235	272	37	246	283	37	246	283
GS-11	10	55	65	10	60	70	10	60	70
GS-9	10	56	66	10	62	72	10	62	72
GS-8	5	--	5	5	--	5	5	--	5
GS-7	19	74	93	19	76	95	19	76	95
GS-6	8	16	24	8	20	28	8	20	28
GS-5	15	24	39	15	29	44	15	29	44
GS-4	7	17	24	7	28	35	7	28	35
GS-3	3	9	12	3	9	12	3	9	12
Total Permanent Positions	209	606	815	208	652	860	208	652	860
Staff-Years:									
Ceiling	214	637	851	208	672	880	208	672	880
Non-ceiling	2	32	34	2	28	30	2	28	30
Total	216	669	885	210	700	910	210	700	910

OFFICE OF THE INSPECTOR GENERAL

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

		1985	1986	1987
	Personnel Compensation:			
	Headquarters	$6,437,332	$6,465,000	$6,465,000
	Field............................	22,046,438	22,141,000	22,141,000
11	Total Personnel compensation	28,483,770	28,606,000	28,606,000
12	Personnel Benefits..........	3,789,174	3,926,000	3,926,000
13	Former Personnel...........	30,495	44,000	44,000
	Total Personnel Compensation Benefits..................	32,303,439	32,576,000	32,576,000
	Other Objects:			
21	Travel......................	4,362,629	5,638,000	5,464,000
22	Transportation of Things...	94,695	182,000	182,000
23.2	Rental payments to others .	30,000	80,000	80,000
23.3	Communications, utilities and misc. charges	1,774,978	2,174,000	2,174,000
24	Printing and reproduction..	90,788	158,000	158,000
25	Other services.............	3,537,598	3,802,000	3,837,000
26	Supplies and materials.....	380,707	450,000	450,000
31	Equipment..................	2,282,117	1,400,000	1,400,000
42	Ins. Claims & Indemnities .	2,110	- -	- -
43	Interest & Dividends	1,082	- -	- -
	Total other objects............	12,556,704	13,884,000	13,745,000
	Total direct obligations...........	44,860,143	46,460,000	46,321,000

Position Data

	1985	1986	1987
Average Salary, ES positions.......	$67,290	$67,290	$67,290
Average Salary, GS positions.......	33,229	33,022	33,022
Average Grade, GS positions........	10.56	10.43	10.43

OFFICE OF THE INSPECTOR GENERAL

The estimates include proposed changes in the language of this item as follows (new language underscored; deleted matter enclosed in brackets):

Office of the Inspector General

> For necessary expenses of the Office of the Inspector General,
> including employment pursuant to the second sentence of section 706(a)
> of the Organic Act of 1944 (7 U.S.C. 2225), [$30,756,000] $46,321,000,
> including such sums as may be necessary for contracting and other
> arrangements with public agencies and private persons pursuant to
> section 6(a)(8) of the Inspector General Act of 1978 (Public Law
> 95-452), and including a sum not to exceed $50,000 for employment under
> 5 U.S.C. 3109; and including a sum not to exceed $75,000 for certain
> confidential operational expenses including the payment of informants,
> to be expended under the direction of the Inspector General pursuant
> 1 to Public Law 95-452 and Section 1337 Public Law 97-98 [,and in addition,
> $15,924,000 shall be derived by transfer from the appropriation, "Food
> Stamp Program", and merged with this appropriation].

The change is being recommended for deletion in view of language included in Public Law 99-198, the Food Security Act of 1985 which would prohibit funds appropriated under the authority of the Food Stamp Act from being transferred to the Office of the Inspector General.

OFFICE OF THE INSPECTOR GENERAL

	OIG	Transfer from FNS	Total
Appropriation Act, 1986......	$30,756,000	$15,924,000	$46,680,000
Budget Estimate, 1987........	46,321,000	- -	46,321,000
Decrease in Appropriation....	+15,565,000	-15,924,000	-359,000
Adjustments in 1986:			
Appropriation Act, 1986....	30,756,000	15,924,000	46,680,000
Less pro-rata reduction, P.L. 99-190..............	-185,000	- -	-185,000
Net Appropriations.......	30,571,000	15,924,000	46,495,000
Transfer to Departmental Administration and Office of Governmental and Public Affairs for Reimbursable activities a/	-35,000	- -	-35,000
Adjusted Base for 1986.	30,536,000	15,924,000	46,460,000
Budget Estimate 1987.........	46,321,000	- -	46,321,000
Decrease from adjusted 1986..	+15,785,000	-15,924,000	-139,000

a/ A transfer of $27.000 to Departmental Administration and $8,000 to Office of Governmental and Public Affairs is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES
(on basis of adjusted appropriation)

Item of Change	1986 Estimated	Decrease	1987 Estimated
Audit and Investigations.....	$46,460,000	-$139,000	$46,321,000

PROJECT STATEMENT
(on basis of adjusted appropriation)

	1985		1986 Estimated			1987 Estimated	
Project	Amount	Staff Years	Amount	Staff Years	Decrease	Amount	Staff Years
Audit and Investigations.	$44,860,143	885	$46,460,000	910	-$139,000 (1)	$46,321,000	910
Unobligated balance......	1,425,857	--	--	--	--	--	--
Total available or estimate.......	46,286,000	885	46,460,000	910	-139,000	46,321,000	910
Transfer to DA and OGPA	+35,000	--	+35,000				
Total Appropriation........	46,321,000	885	46,495,000				

EXPLANATION OF PROGRAM

This appropriation funds the activities authorized by the Inspector General Act of 1978 (Public Law 95-452) enacted October 12, 1978. This Act expanded and provided specific authorities for the activities of the Office of the Inspector General which had previously been carried out under the general authorities of the Secretary of Agriculture. The Inspector General:

-- conducts and supervises audits and investigations relating to programs and operations of the Department of Agriculture;

-- provides leadership and coordination and recommends policies for activities designed (a) to promote economy, efficiency, and effectiveness, and (b) to prevent and detect fraud and abuse in programs and operations of the Department; and

-- keeps the Secretary and the Congress fully informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

Pursuant to the Agriculture and Food Act of 1981, the Inspector General has authority to designate special agents to carry firearms while engaged in official duties under the Inspector General Act of 1978 such as: making arrests; executing warrants for arrests; searching of premises; and seizure of evidence while conducting investigations of suspected or alleged felony criminal violations involving USDA programs.

The following table shows the audits and investigations and the staff-years planned for each area for fiscal year 1986.

Area	Audits/ Cases	Staff-Years of Effort
Audits..............................	688	526
Investigations......................	1,813	384
Total.......................	2,501	910

GAO Reports None

JUSTIFICATION OF INCREASES AND DECREASES

(1) A net decrease of $139,000 for management savings in travel.

Office of The Inspector General

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS

1985 and Estimated 1986 and 1987

	FY 1985		FY 1986		FY 1987	
Locations	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
California............	$4,179,140	91	$5,331,000	109	$5,281,000	109
District of Columbia............	9,091,694	156	9,731,000	166	9,727,000	166
Georgia...............	7,886,634	149	6,607,000	129	6,577,000	129
Illinois..............	5,082,158	106	5,146,000	107	5,142,000	107
Maryland..............	3,905,500	93	3,714,000	90	3,706,000	90
Missouri..............	6,538,649	130	7,499,000	145	7,458,000	145
New York..............	3,235,879	65	3,620,000	71	3,613,000	71
Texas.................	4,940,489	95	4,812,000	93	4,817,000	93
Total Available or Estimate............	44,860,143	885	46,460,000	910	46,321,000	910

OFFICE OF THE INSPECTOR GENERAL

STATUS OF PROGRAM

The Office of the Inspector General (OIG) is operationally independent of other agencies of the Department. OIG has the responsibility (1) to supervise, coordinate and provide policy direction for audit and investigative activities relating to programs and operations of the Department; (2) to recommend policies for, and to conduct, supervise, or coordinate other activities of the Department for the purpose of promoting economy and efficiency, and preventing and detecting fraud and abuse in its programs and operations; (3) to keep the Secretary and Congress informed of fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations; and (4) to recommend corrective action and report on progress made in implementing such action. In carrying out these responsibilities, the Inspector General has authority to designate special agents to make arrests, execute warrants for arrest, search premises, seize evidence, and carry firearms while in the course of felony investigations involving USDA programs.

ACCOMPLISHMENTS IN FISCAL YEAR 1985

During Fiscal Year 1985 OIG issued 795 audit reports and 1,223 investigative reports. Investigations also had 570 indictments, 626 convictions, 21 suits filed, and 203 fines levied. The period of time to get court action on an indictment varies widely; therefore, the 626 convictions are not necessarily related to the 570 indictments. The overall conviction rate has remained at approximately 90 percent.

Audit Monetary Results:

During Fiscal Year 1985, a total of 795 audit reports were issued. At the time of report issuance, the monetary values associated with these reports were:

a. Questioned Costs-Collection Recommended	$ 35,105,180
b. Questioned Loans-Collection Recommended	2,030,208,200
TOTAL	$2,065,313,380
c. Questioned Costs-Collection Conditional	$ 23,698,249
d. Questioned Loans-Collection Conditional	3,058,246,331
TOTAL	$3,081,944,580
e. Program Improvement Purposes-No Collection	$9,268,852,770

During Fiscal Year 1985, OIG resolved and/or closed a total of 789 reports. At the time of issuance the monetary values associated with these were:

a. Questioned Costs and Loans, Collection Intended	$ 161,881,116
b. Loan Guarantees Recommended for Cancellation	1,428,380
TOTAL	$ 163,309,496

At the time of resolution these values were:

a. Costs and Loans Referred for Collection	$ 43,898,357
b. Post Audit Justification Accepted by OIG	119,697,994
TOTAL	$ 163,596,351 1/

c.	Loan Guarantees Cancelled	$ 428,380
d.	Savings and Management Improvements	$ 197,227,498 2/
e.	Sanctions	$ 1,601

1/ This figure, Costs and Loans Referred for Collection, Post Audit Justifications Accepted by OIG, plus Loan Guarantees Cancelled, approximates the value of Questioned Costs and Loans, Collection Intended, and Loan Guarantees Recommended for Cancellation, at time of report issuance.

2/ Data for Savings and Management Improvements are entered into our information management system at time of resolution.

Legislative and Regulation Review Results:

The review of existing and proposed legislation and regulations affecting USDA's programs and OIG operations is a statutory responsibility of the Office of the Inspector General. This responsibility includes the analysis of their impact on the economy and efficiency of program operations, and on the prevention and detection of fraud and abuse, and the provision of appropriate comments to Congress, OMB, or agencies of the Department.

In FY 1985, OIG reviewed 134 pieces of legislation and 117 regulations.

Investigative Monetary Results:

Recoveries and collections (actual)	$ 7,726,257
Cost Avoidance (payment not made based on investigative reports)	2,986,380
Fines (actual)	1,286,663
Claims established (actual)	12,245,981
Restitution (actual)	5,767,573
Total Investigative Accomplishments	$30,012,854

AUDIT ACCOMPLISHMENTS

AUTOMATED DATA PROCESSING (ADP) ACTIVITIES

Computer Center Security, Accountability and Capacity Management

We completed a review at the Kansas City Computer Center (KCCC) and initiated audits at the Fort Collins Computer Center (FCCC), Washington Computer Center (WCC) and at the USDA National Finance Center (NFC) in New Orleans for the purpose of determining the adequacy of the computer facilities' security, accountability, and capacity management. At the KCCC, we found that critical files had not been adequately protected against unauthorized access; security software had not been made available to user agencies; and users were allowed the capability to access datasets without password validation. In addition, data access controls at NFC and FCCC need to be strengthened.

NFC had not changed identification codes (IDs) and passwords in a timely manner for all its computer systems, and FCCC users had not always changed some of their original IDs and passwords that were established upon initial software installations.

Accountability weaknesses resulted when KCCC's user agencies allowed multiple use of their IDs. It was difficult, if not impossible, to monitor and control computer usage to ensure that only authorized users were performing authorized functions.

KCCC's process of determining the need to upgrade equipment was impaired by an unreliable capacity management program. As a result, KCCC has continually had to acquire additional computer capacity ahead of scheduled timeframes. The Center also cannot identify workload characteristics processed by specific hardware or software components. Without this ability, user workload estimates cannot be properly analyzed to determine whether equipment upgrades are actually needed and, if needed, what type and extent of the upgrade should be made. The Centers and NFC have generally agreed with our findings and have initiated corrective action.

ADP Systems Design/Development and Implementation

The Agricultural Stabilization and Conservation Service (ASCS) established controls in their automated Milk Diversion Program system to identify certain types of overpayments. However, these controls were not effective because State and county offices were not providing information needed to correct the records in the system. We found that the system contained:

- Potential overpayments and unearned payments totalling $47 million. These payments were made to producers who were not eligible for full benefits because the reduced production appeared to be at variance with the established program tolerances.
- Payments totalling in excess of $4.9 million that had been made on 608 contracts that had not been recorded in the system.

Although ASCS routinely provided State and county offices with lists containing the potential discrepancies, the lists were generally not used, and the Kansas City Management Office (KCMO) did not followup to ensure corrections were made. We recommended that KCMO routinely follow up and reconcile payments made for each contract to be reconciled to the contracted amount at the end of the program. ASCS agreed with our recommendations and has developed an adequate corrective plan.

We have monitored the general and detail design of the Farmers Home Administration's (FmHA's) Automated Program Delivery System (APDS), the agency's proposed new accounting system, to provide assurance that the system will include adequate internal controls. We found enhancements were needed to bring the system into full compliance with regulatory requirements, to ensure processing efficiencies, and to more effectively meet some user needs. Our major areas of concern involved the following:

- The design of APDS's internal accounting and processing controls was not always adequate to provide reasonable assurance of the accuracy of data elements and of compliance with FmHA program regulations. We also found additional data elements would enhance auditability of the system.
- Additional management reports were needed to assist FmHA managers in more effective cash and debt management.
- The detail design contained incorrect formulas for computing Rural Housing Loan amortizations, interest credit subsidies, and gross income percentages.
- The capability to report erroneously processed transactions was not designed into APDS.

FmHA has generally agreed with OIG findings and has taken necessary corrective action.

DEPARTMENTAL ADMINISTRATION ACTIVITIES

Controls Over Yearend Spending

The Forest Service (FS) Southern Region had not enforced internal control policies established to ensure prudent yearend procurement actions. Our review of $8.2 million of FY 1983 and 1984 fourth quarters procurements disclosed over $2 million in yearend purchases that appeared to violate the Anti-deficiency Act. These questionable purchases occurred because FS personnel obligated expiring appropriations when the items or services to be procured did not serve a bona fide need in the year of fund obligation. Further, FS personnel either had not prepared or had not adequately prepared procurement plans to document the need for many yearend expenditures and obligations. As a result, the FS did not properly ensure that prudent yearend procurement occurred.

We recommended that the FS ensure internal controls are functioning as prescribed in FY 1985 to preclude improper purchasing activity this year. In addition, we recommended that the FS analyze each of the cited cases in our report and determine, in concert with OGC, whether violations of the Act had occurred. All violations identified should then be reported, as required by the Act.

In response to the audit, the FS issued additional instructions to its field offices reemphasizing the need to closely monitor yearend procurement activity. The FS disagreed that Anti-deficiency Act violations had occurred. They stated that what had transpired were accounting errors, in that contracts appear to have been charged to an incorrect appropriation account. We will refer this issue to the Office of the General Counsel (OGC) for their determination.

Departmental Use of Purchase Orders May Not Be Cost Effective

Another review we conducted of the procurement area disclosed that the Department had not established the cost incurred in processing purchase orders, nor had they prescribed a minimum dollar value before purchase orders could be transacted without specific authority. Purchase orders have been used to acquire goods and services regardless of dollar value.

In FY 1984, USDA executed 22,041 purchase orders under $50; the average dollar value of these procurements was $26.89. Estimating the cost incurred to process each purchase order at $50 (FS conducted an internal study in FY 1982 and arrived at this cost figure which we consider a conservative estimate), we calculate that the Department incurred over $509,000 more in operating expense than the value of the items purchased.

We recommended that the Office of Finance and Management (OFM): (1) conduct a study to ascertain the cost of processing purchase order forms; and (2) prescribe the appropriate minimum level of purchases in the Department Regulations. Agencies should be required to take actions, like aggregating small purchases or using imprest funds where applicable, rather than execute purchase orders. OFM agreed to conduct a study Departmentwide of the cost effectiveness of purchase orders.

Debt Management and Collection Procedures

We reviewed the debt management and collection procedures of the seven agencies, placing special emphasis on the management of delinquent accounts and resultant bad debts.

Followup collection activities at NFC for delinquent accounts submitted to the Claims Unit were inconsistent, and accounts that were recommended for write-off were not processed in a timely manner. As a result, accounts totalling $31,450 which had been previously recommended for collection, followup or write-off had not been pursued from 9 months to several years after the recommendations were made. In addition, administrative bills (salary and travel overpayments and unused airline tickets) that were determined uncollectable were being filed, with no further actions taken. Administrative bills dating back to 1978, which totalled approximately $544,000, were forwarded to the Claims Unit for collection followup during the course of our review. Further, accounts receivables totalling approximately $344,660 as of September 30, 1984, were improperly classified by OICD as non-Government accounts rather than Government accounts.

We recommended that the internal controls at NFC be strengthened over the collection and followup of delinquent accounts and administrative bills. The Office of Finance and Management concurred with our recommendations and replied that over $514,000 of the administrative bills have now been collected, the OICD receivable has been reclassified.

Centralized Control Over Departmental Forms Programs

The Department has not fully centralized its forms management program. Although the Department maintains and operates a central forms warehouse, some agencies are allowed to operate their own independent warehousing and distributions systems at an annual cost exceeding $550,000. In addition, we found that these agency warehouses had excessive inventories of both current and outdated forms.

The methods used by the agencies to distribute forms from warehouses to their field offices was inefficient. For example, agency distribution procedures required multiple handling of forms, and the agencies themselves did not take advantage of collocated field offices in forms distribution.

We recommended that all agencies be required to participate in the central forms warehouse. Further, inventory controls should be improved, to include determining the most cost effective approach to designing, ordering, stocking, and distributing Departmental and agency forms.

The Department responded that a USDA-wide survey and analysis of all warehouses and warehouse applications has been established. The purpose of the survey and analysis is to: (1) identify present warehouse locations and their functions; (2) identify warehousing staffing; (3) eliminate, centralize, or decentralize, as appropriate; and (4) implement state-of-the-art management and control procedures. The survey and analysis effort is also considering centralization and/or collocation with the Department of Commerce for possible additional economy in warehouse management and control.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE (ASCS)

Payment Limitations

During the 1982 and 1983 crop years, total price support and production adjustment payments to any one individual or entity were not to exceed $50,000 per year. State and County Committees were responsible for reviewing farm units and assuring that maximum payment limitation provisions were not evaded or abused. An OIG review performed in eight States found that 51 of 118 entities reviewed did not qualify as separate "persons" for purposes of the $50,000 payment limitation. These entities were scheduled to receive 1982 and 1983 payments totalling $1.7 million, all in excess of the payment limitation. These entities were originally considered separate persons because ASCS officials did not obtain sufficient information concerning farming operations and financing; actual operations differed from those shown on operating plans entities submitted; computer edits had not been established to prevent excessive payments from being issued; and required reviews of producer or entity determinations were not made by higher management levels.

The audit recommended that ASCS require additional information from producers on how the new entities will be financed and operated; obtain profit and loss statements and other partnership or corporate information; provide computer-generated exception listings showing recipients of payments exceeding the maximum limitation by address; and collect the excess payments made.

RURAL ELECTRIFICATION ADMINISTRATION (REA)

We undertook two broad-based audits during FY 1985 regarding loan making policies REA employed for telephone companies and electric generation and transmission cooperatives.

Telephone Loans

OIG estimated that REA made over $1 billion in loans at subsidized interest rates to borrowers who could afford to obtain financing from private sources or to pay REA higher interest rates. While REA had properly made these loans under existing policy, these loans will cost the Government over $500 million in interest over the life of the loans.

In some cases, REA made loans to subsidiary companies based on the subsidiaries' financial condition, even though parent holding companies had managerial and financial control over subsidiary operations. REA did not consider the parent companies' financial strength when making loans to the subsidiaries. Other REA borrowers had tariff rates that were lower than the rates charged by neighboring telephone companies which did not have REA loans. Had these REA borrowers increased their tariff rates to a level comparable with that of their neighboring telephone companies, the borrowers would have generated additional income, and the amount of loan funds needed would have been reduced or eliminated.

OIG estimated that borrowers received excessive loan advances totalling $193 million because REA did not obtain current and accurate financial information in order to limit loan advances to amounts needed. REA did not deobligate $16 million in unadvanced loan funds which borrowers no longer needed. We identified questionable work order reimbursements to 27 borrowers totalling $5.5 million.

Many telephone companies operate in areas that although at one time were rural, are no longer rural, but continue to receive subsidized REA loans. This situation occurs because REA policy provides that once an area is determined to be eligible for financial assistance, it remains eligible regardless of population changes. We identified over $136 million in loan funds that were used by 20 borrowers to improve telephone service in urban areas.

Electrical Generation and Transmission (G&T) Cooperatives

In its loan approval process, REA needed more effective controls to ensure that loans were approved based on current growth forecasts. REA approved construction loans totalling over $3.1 billion to five of the eight borrowers we reviewed on-site based on power requirement studies which were either outdated, or did not fully support the need for the loan. During the audit, REA formulated proposed changes to its power requirement studies which would require borrowers to prepare annual updates using newer, more accurate forecasting methods. Our analysis of records only at REA Headquarters disclosed four additional borrowers which have either canceled their projects, or placed them on extended delay because of decreases in expected power demand. REA did not have adequate controls established to evaluate and rescind, as necessary, approximately $3.5 billion in loan guarantees approved for these projects. During the audit, REA began a review of these projects to determine whether the guarantees should be rescinded.

During FY 1983, G&T borrowers provided energy to 772 REA distribution cooperatives. From an analysis of the rural characteristics of individual cooperatives' service areas, we determined that 15 G&T borrowers generated and transmitted power to 32 distribution cooperatives which no longer served predominately rural areas. Current legislation does not restrict service to only rural areas; however, REA has proposed legislation to limit funds to only rural areas by using consumer density as an eligibility criteria. The proposal would eliminate loans to distribution cooperatives having a density of 10 or more consumers per mile of line. However, the legislative proposal does not include this provision for G&T borrowers. The 15 borrowers received guaranteed and insured loans totalling about $3.1 billion, for the period 1978 through 1983, to provide power to the 32 distribution cooperatives which we believe fit the criteria set forth in the proposed legislation.

While the eight borrowers reviewed generally complied with regulations and procedures, we did find that one borrower prematurely drewdown about $22.8 million without sufficient need, primarily to avoid expiration of the 7-year drawdown period. Two borrowers drewdown loan funds of about $1.6 million for costs which were covered by previous drawdowns.

During the audit, REA proposed legislation to amend the Rural Electrification Act to permit REA to charge user fees for its loan programs. In FY 1983, REA incurred costs of $28 million to administer its loan programs for electric and telephone borrowers. If authority had existed, REA could have recovered these costs in user fees.

FOOD AND NUTRITION SERVICE (FNS)

Food Stamp Recipient Claims

When households receive excess or ineligible benefits, State Agencies have the responsibility to establish claims and make collections. As of January 1984, outstanding claims were estimated in excess of $262 million. Evaluation of FNS and State management of these claims showed a number of areas where improvements were needed.

Monthly collections could increase by $4.3 million if State Agencies fully implemented allotment reduction provisions. The States could further accelerate collection efforts by having systems in place to identify households with outstanding claims and using the option of having households waive unneeded hearings. (FNS has encouraged both these practices.) States also needed to pursue backlogs of claims totalling over $200 million. The States have been slow to act on the backlog mainly because of personnel shortages. However, other factors contributed to the problem; namely, State Agency policies, lack of emphasis, backlogged court dockets, and reluctance to prosecute.

State Agencies prematurely suspended or terminated claims without initiating collection action. Reports on claims activities were inaccurate and systems were not in place to age accounts and identify delinquent households. The audit report recommended that FNS assume a more aggressive role in monitoring State Agencies' collection efforts. Although FNS stated that claim reviews were given a higher priority in January 1983, and that 44 reviews were completed in the interim, OIG found that this function continues to require attention during FNS's management reviews.

FNS reported progress in getting allotment reduction procedures in place and in using automated data systems to better control claims. Attention is presently being directed toward improving the accounting and reporting systems.

Temporary Emergency Food Assistance Program (TEFAP)

OIG has closely monitored the TEFP since its inception and we previously issued reports outlining problems with accountability, eligibility and waste. During FY 1985, we audited the program in 10 States. OIG continues to find problems with inventory controls and ineligible and questionable expenses claimed as administrative costs.

Weaknesses in inventory controls and accountability were found in all 10 States; inventory records were inadequate, incomplete, or inaccurate; shortages had occurred; State Agencies did not establish claims for known losses; commodities were diverted to other programs; and commodities reported as donated to the needy could not be accounted for when reconciled to recipient applications and issue documents.

We identified ineligible and questionable claims for administrative costs in each of the audits; expenses claimed were not incurred; costs were improperly allocated; expenses lacked documentation; expenses were incurred outside of the grant period; and goods and services were purchased that did not qualify for reimbursement.

One sponsor could not account for the distribution of 256,000 pounds of donated foods valued at about $375,000. We attributed the losses to inadequate warehousing facilities, and inaccurate and incomplete records. In addition, we found that local distributing centers (subsponsors) did not maintain records as required to account for donated food distributed to eligible recipients.

In response to our report, FNS directed the State to recover the value of the commodities lost through spoilage or inventory shortages or to replace in-kind the lost food. FNS also directed the State to provide additional guidance to sponsors regarding recordkeeping requirements and to conduct monitoring reviews to ensure that corrective actions are taken.

Collectively, the audits identified that State Agencies and local emergency feeding operations need to establish and enforce internal controls over commodity inventories and administrative costs. Further, FNS needs to require States to monitor inventories and controls.

FARMERS HOME ADMINISTRATION (FmHA)

Debt Set-Aside Program

In September 1984, the President directed the Secretary of Agriculture to modify existing farm lending programs to provide additional assistance to financially distressed farmers and ranchers. The Debt Set-Aside Program implemented this directive, allowing postponement for 5 years of payments on up to 25 percent of the total principal and interest owed per borrower, or $200,000, whichever is less. The extent of assistance provided by FmHA is based upon a projection of each borrower's cash flow. A positive cash flow (after operating and living expenses) equal to 110 percent of annual debt payments due, including tax liabilities, must be achieved through regular servicing actions and set-aside. OIG monitored this program from its inception with an overall report issued during FY 1985 addressing issues on a nationwide basis.

FmHA's administrative controls were insufficient to ensure that special debt set-aside benefits were provided only to eligible borrowers in correct amounts and that equal treatment was provided to all borrowers. The extensive calculations necessary to establish a borrower's eligibility and the amount of debt to be set-aside were complicated and subject to various interpretations. However, the FmHA National Office did not participate in State training meetings or require special assessment or other similar reviews to help ensure that procedures were applied correctly and uniformly. As a result, field office personnel applied debt set-aside procedures inconsistently from State to State, and in some instances, within the same State. In the 13 States visited during this review, we questioned the eligibility of $9,863,677, or about 71 percent, of the $13,952,620 set-aside amounts granted in cases reviewed.

One extensive and common problem was that farm plans prepared and used to project borrowers' cash flow positions did not reflect a typical year's operations. In many cases the operating plans for crop year 1985 were considered typical by FmHA field office personnel; however, such plans often contained nonrecurring items such as cash carryovers, planned income from expired agricultural programs, or annual payments on debts scheduled to be repaid before the end of the set-aside period. In many instances yields used to project crop production and income were not properly established according to FmHA procedures.

For special debt set-aside purposes, State Directors were responsible for establishing and publishing unit prices to be used for projecting income from the various agricultural commodities. Even though State Directors were required to consult with adjoining States prior to publication of the prices, the prices used varied significantly by State. Soon after the audit began, we expressed concern over the unit price differences which resulted in unequal and inconsistent treatment of borrowers. However, FmHA did not take corrective action on the matter because they believed States should be permitted flexibility in dealing with varying local conditions.

Nationwide Review of County Office Operations

Administrative controls over county office operations did not provide reasonable assurance that Rural Housing (RH) borrowers received proper interest credits, that Farm Ownership (FO) borrowers graduated to outside credit when they were eligible, and that collection-only accounts were classified correctly and serviced properly. FmHA's internal review process, a major administrative control, did not adequately cover collection-only accounts, interest credit recapture provisions, interest credit approvals and graduation activities.

An estimated 30 percent of interest credit agreements (ICAs) executed in FY 1983 contained understatements of income and other errors which caused excessive interest subsidies of about $32.2 million for the 1-year periods covered by the ICAs. These errors are attributable to insufficient administrative controls to disclose unreported applicant income, elicit accurate income data from employers, and assure the accuracy of ICA computations. Prior audits in 1976 and 1980 reported similar conditions. Instructions were changed requiring a yearly review, but material differences continue. As a new approach, OIG recommended that FmHA seek cooperation with State Agencies that administer unemployment compensation programs to verify wages for all adult household members before executing initial and renewal ICAs.

An estimated 13,019 borrowers' FO loan balances of about $310 million, had a high potential for refinancing their loans with outside credit sources. By continuing to finance borrowers who could meet the terms and conditions of outside lenders, FmHA incurred unnecessary interest costs of about $20.1 million during FY 1983.

FmHA's servicing of $403 million worth of collection-only accounts that no longer have collateral, was not adequate to ensure timely collection or prompt debt settlement. FmHA's Finance Office does not have the capability to generate management reports on collection activity and aging of accounts for use in monitoring and following up on collection and debt settlement efforts. An estimated 7,750 accounts, valued at $209.5 million, have been incorrectly recorded on Finance Office records. Two major accounting problems were that the Finance Office continued to carry accounts that had been settled, and it carried accounts as collection-only with borrowers still having other active FmHA loans. Accounts may not be classified as "collection-only" if the borrower has active loans.

Review of interest credit recapture provisions disclosed serious weaknesses in this rapidly expanding activity. Under these provisions, when a borrower with interest subsidy sells his FmHA-financed property, the Government recovers some or all of the subsidies granted from the sale proceeds. Changes are needed in the method of calculating recapture because the present method does not recover all excess loan principal reductions caused by subsidy, and it allows borrowers to receive equity (not subject to recapture) in excess of the borrower's actual equity contribution. The accounting system at the Finance Office contributed to problems we found with interest credit recapture. The current system will not ensure complete accountability for funds subject to interest credit recapture and will not provide reasonable assurance that proper amounts have been collected from borrowers when loans are paid in full. FmHA has put a high priority on altering their computer system in order to automate monitoring of interest credit recapture.

FOREST SERVICE (FS)

Timber Management - Antitrust Controls

OIG evaluated the effectiveness of FS controls to deter, identify and deal with antitrust violations in the sale of Federal timber. We reviewed timber sales operations at 15 National Forests and evaluated program compliance by 77 National Forests in five regions during the period 1981 to 1983. The five regions sell about 95 percent of FS sawtimber nationwide.

The FS was not effectively dealing with potential antitrust activity. FS units were generally not performing required monitoring activities; the computer-based detection program was largely ineffective; and potential violations were not being properly reported.

Our audit identified 18 potential cases of antitrust activity, 3 of which the FS had referred to the Antitrust Division of the Department of Justic (DOJ). Sixteen occurred during our audit period (1981 to 1983), and two occurred in prior years. The cases involved potential antitrust activity in various forms, including bid-suppression, geographic bidding, sale-sharing, and threats to would-be competitors. If collusion or other antitrust violations did occur as the facts suggest, our best estimate is that the 18 cases in recent years affected at least 135 timber sales and resulted in about $12 million in decreased revenues.

The FS established a bid monitoring program and published instructions for bid monitoring units to continually perform monitoring activities. However, we determined that the FS did not do an effective job in identifying, referring and tracking the 18 cases. Of the 15 potential violations not reported to DOJ, there was sufficient evidence available to the FS in 12 cases to warrant referral. In 5 of the 18 cases, FS law enforcement personnel did some preliminary review work to determine if an antitrust violation had occurred. Doing so without coordinating the reviews with DOJ may have jeopardized prosecution for three of these cases. Because of the ineffective tracking, the FS took no corrective administrative action; three noncompetitive bidding patterns continued at the time of our review; DOJ's actions on the three referred cases were unknown; and the case files for two cases were lost. Some FS timber sale procedures and practices do not deter antitrust violations and may encourage them. The FS discloses its minimum bid prices when advertising timber sales and exercises weak controls over the conduct of oral bid sales. It also uses a lottery method to break tie bids, engages in long term "direct sales" agreements, and, most importantly, does not convert to sealed bidding to deal with noncompetitive bidding patterns. Sealed bidding has been recognized by experts as an effective means of lessening collusion.

Timber Road Construction and Maintenance

Our audit of timber purchaser road construction in FS Region 8 disclosed improper use of purchaser credit to: (1) finance timber sale road designs and standards in excess of the minimum needed for the current timber sales; and (2) finance road maintenance activities. On three Region 8 National Forests, we found that approximately $1.5 million of purchaser credit was used to finance excessive road designs or road maintenance in FY 1983. Applicable laws and FS procedures require that such expenses be paid from appropriated funds. Use of purchaser credit for these purposes represents an unauthorized augmentation of regular appropriations and generally circumvents the budgetary/appropriation process. In addition, timber sale receipts and funding for reforestation activities may be unnecesarily reduced.

Shortages of appropriated funds for road maintenance have resulted in some inadequately maintained roads and in costly reconstruction. We found 22 roads that were reconstructed for current timber sales at a cost of $480,000, even though these roads could have been maintained to standard during the years between sales for about $139,000.

LEGISLATIVE REVIEW

Legislative Proposal Will Strengthen Penalties Against Marijuana Growers

An amendment to Public Law 92-73, the Agriculture-Environmental and Consumer Protection Appropriation Act, 1972, was introduced in September 1985. The amendment will strengthen penalties against ASCS and CCC program participants "who plant, grow, cultivate, store, or produce for harvest, for illegal use, marijuana or other drug-producing plants on any land owned or controlled by such producers."

This proposed amendment was recommended by OIG and ASCS as a result of a review of the present legislation which prohibits payments only to producers who harvest marijuana or knowingly permit it to be harvested for illegal use. The problem with the present legislation is that it currently would allow payments to continue to be made to a program participant who was convicted of criminal charges (other than harvesting) related to the production of marijuana.

We are currently reviewing enabling legislation for the loan and indemnity programs operated by FmHA and the FCIC to determine whether similar financial sanctions could be imposed upon anyone caught participating in any stage of marijuana production or illegal use while participating in programs operated by those agencies.

OIG Seeks Increased Supervision of Problem Borrowers

OIG reviewed the FmHA's proposed rule, "Special Supervision of Delinquent and Problem Case FmHA Farm Borrowers," (49 FR 47007) and recommended revisions that would (1) strenthen internal controls for documenting and tracking unauthorized disposition of chattel security, (2) add specificity to required actions of both FmHA personnel and borrowers, and (3) bring the rule into conformity with Departmental Regulation 1710-2, which requires that all cases involving suspected criminal activity be referred to OIG.

OIG Oversees Deficit Reduction Act (DEFRA) Guideline Development

Section 2651 of the Deficit Reduction Act required States, by April 1, 1985, to implement income and eligibility verification systems for selected Federal programs (principally Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, Medicaid and Unemployment Compensation). Using program applicants' and recipients' Social Security numbers, States are required to match with other data bases containing wage and resource information for the purpose of verifying applicant and recipient eligibility and to prevent incorrect benefit payments.

In order to implement the income and eligiblity verification provisions of the Act, the Office of Management and Budget (OMB), under the auspices of the President's Council on Management Improvement, established a Steering Committee consisting of the Assistant Secretaries for Management and the Inspectors General from USDA, Labor, Health and Human Services, as well as, the Associate Director for Management at OMB. OIG staff participated on the Task Force Teams to develop implementing regulations and standardized computer formats for exchange of matching data.

INVESTIGATIONS ACCOMPLISHMENTS

FARMERS HOME ADMINISTRATION (FmHA)

In FY 1985 we issued 258 reports of investigation of FmHA programs and operations. Our monetary results for FmHA exceeded $11 million and included $2.7 million in recoveries/collections; $1.4 million in restitutions; claims established in excess of $5.7 million; and costs avoided in excess of $1.1 million. Examples of these cases are set forth below:

A former FmHA county office assistant and an associate were indicted by a Federal Grand Jury for the embezzlement of FmHA loan funds. The county office assistant set up five fictitious FmHA loan dockets which she used to embezzle more than $200,000 in FmHA funds. Arrest warrants were issued for the former employee and the associate who fled to avoid prosecution. The county office assistant was later arrested in another city by the U.S. Marshals Service and returned for trial.

A former FmHA County Supervisor was sentenced to seven years in prison for embezzling more than $1.0 million in FmHA loan funds by setting up fraudulent loan accounts in the name of fictitious borrowers while serving as the county office supervisor in one State. He was joined in the scheme by two civilian associates who assisted him in funneling back money from the fraudulent loan accounts. These associates were also indicted and convicted in Federal Court for their part in the conspiracy. FmHA stands to recover approximately $700,000 from the sale of assets including a farm, helicopter, cars, trucks, guns, and farm equipment.

A Federal District Court Judge in one State sentenced an FmHA loan borrower to ten years in Federal prison for selling unregistered securities, making illegal use of the U.S. Mail, overvaluing collateral, and making false statements. The borrower fraudulently obtained an FmHA loan by overstating his annual income and understating his debts. With the FmHA loan, he purchased a 200 acre farm from FmHA inventory and planted evergreen seedlings. He then issued stock certificates on the seedlings which were sold to the public. The certificates vastly overstated the quantity of planted seedlings and the capacity of the land to produce such trees. The borrower is estimated to have realized between $1.0 and $3.0 million from the fraudulent sale of the stock certificates. The subject's ten-year prison term is one of the longest white collar crime sentences in the history of the Western District of one State and in the career of the Federal Judge who imposed sentence.

In one State a fifteen count indictment was returned by a Federal Grand Jury against a rancher, his company, and a business associate for conspiring to defraud the government, converting government property, and making false statements. The rancher sold more than a thousand head of cattle under lien to FmHA without the knowledge or approval of FmHA officials. The proceeds of all sales, approximately $500,000, were applied by the rancher to outside business ventures and to company operations. The rancher pled guilty to five counts, while the company has pled guilty to one count of conversion of government property.

In another State a farmer received over $2 million in emergency loans from FmHA and pledged livestock and crops as collateral to secure those loans. The farmer later sold his crops and over 1,000 head of livestock and converted the proceeds to his own use. The farmer was convicted of illegally disposing of property mortgaged to the FmHA.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE (ASCS)

COMMODITY CREDIT CORPORATION (CCC)

In FY 1985 we issued 244 reports of investigation for ASCS. Our FY 1985 monetary results totaled more than $9.2 million. Included in this amount were claims established in excess of $4.4 million; recoveries/collections of over $3 million; restitutions exceeding $1.3 million; and costs avoided in excess of $313 thousand. The following are some examples of these cases:

A farmer received three price support loans from the CCC totalling over $350,000. He later sold or otherwise disposed of those crops and failed to repay the CCC loans. The farmer pled guilty in Federal court to illegally disposing of the mortgaged grain and agreed to repay $121,000 plus interest to CCC. The investigation also disclosed the farmer had mortgaged the same grain to a local bank as security for other loans.

A rancher participating in the CCC Emergency Feed Program provided false invoices to ASCS to inflate his claims for assistance by over $16,000. The rancher received the false invoices from a feed dealer to whom he gave a Caribbean cruise in exchange for the documents. The feed dealer pled guilty and was placed on probation. The rancher pled guilty to tax code violations, was placed on probation and is paying back taxes. The rancher is making restitution to ASCS.

The operator of a farm management service was sentenced in Federal court to four years in prison and in state court to two concurrent 10 year sentences after he pled guilty to a Federal charge of conversion and state charges of fraudulent practices and theft. He obtained two CCC loans totalling $69,471 by pledging soybeans owned by two of his clients. He then sold the soybeans and received approximately $103,000 in proceeds. The owners were not aware that their soybeans had been mortgaged or sold and they had not received any monetary considerations from the sale or loan proceeds.

A dairy farmer was sentenced to three years in prison and fined $10,000 for defrauding the Government. The farmer sold milk which he had contracted with the Commodity Credit Corporation not to produce under the Milk Diversion Program. The investigation also resulted in conspiracy charges being filed against the owner of the dairy that purchased the milk.

An ASCS County Office Clerk's employment was terminated as a result of her predating 12 of her paychecks totalling $5,448 by as much as two weeks, her borrowing cash from County Office collections for periods of up to 11 months, and her failure to account for cash received during 1983 and 1984. She was able to predate her salary checks because it had been a practice for the County Office employees to countersign a number of blank checks for both payroll and program use in advance of actual check issuance. The practice has been discontinued.

An OIG investigation disclosed that 13 Payment-in-Kind (PIK) Program participants harvested lettuce from their Conservation Use Acreage (CUA) prior to January 1, 1984, in violation of PIK regulations and their signed PIK contracts. The 13 participants received PIK payments and entitlements totalling $3,095,183 and were found to have harvested lettuce from their CUA worth $2,454,971. Twelve of the growers were assessed money penalties by ASCS, nine of whom have filed appeals. ASCS determined that no action was required with regard to the remaining grower.

In one State a prominent farmer, who was formerly a chairman of the State's Farm Bureau, was convicted of seven felony charges of embezzlement, bankruptcy fraud, bank fraud, and conversion of property mortgaged to FmHA and ASCS. The farmer was charged with converting $120,000 in property mortgaged to ASCS, converting $1,116,000 in property mortgaged to FmHA, embezzling $406,353 in Government property, embezzling bank funds and making false statements to FmHA and to a bank insured by the Federal Deposit Insurance Corporation. The farmer still owes FmHA and ASCS about $3.5 million.

FOOD AND NUTRITION SERVICE (FNS)

In FY 1985 we issued 418 reports of investigation in FNS programs, including 334 related to the Food Stamp Program. Overall monetary results exceeded $4 million, which included $1.3 million in claims established; over $800 thousand in restitutions; and recoveries/collections of more than $700 thousand. The following are examples of these cases:

Food Stamp Program

After a joint investigation by OIG, the U.S. Secret Service and the Police Department in one State, an individual was charged with exchanging 225 cases of stolen breakfast cereal for food stamps. The cereal was identified as part of a stolen shipment valued in excess of $500,000. As a result of this investigation, six people were also charged with the sale and/or transportation of stolen property. These individuals have entered guilty pleas and will be sentenced at a later date.

In another State a retail food store owner was indicted for the unauthorized possession of approximately $7,000 in food stamps. This investigation, conducted jointly by OIG and U.S. Postal Service Inspectors, produced evidence that this individual had redeemed "washed" food coupons (food coupons treated with a chemical solution to erase original cancellation markings), believed to be part of a stolen $45,000 shipment of food stamps to a Federal Reserve Bank. The owner pled guilty and will be sentenced at a later date.

> A series of investigations involving a caseworker and persons fraudulently obtaining Food Stamp Program benefits were conducted with one State's Department of Health and Human Resources. The caseworker pled guilty to stealing, forging, and cashing an ATP card. In other unrelated investigations, seven persons were indicted for providing false income and personal information in order to obtain approximately $25,000 in food stamps. Three of these persons have pled guilty.
>
> In another State $22,000 worth of food stamps were stolen from a local issuance office. One of the office employees inadvertently left a box of food stamps out of the safe when the office was closed for the night. Two members of an office cleaning crew found the food stamps and stole them. Information provided to OIG and the Secret Service enabled the quick apprehension of the thieves and the recovery of a portion of the stolen food stamps. The two people involved have been indicted for the theft.
>
> In one State an assistant vice president and branch manager and an assistant branch manager of a major international banking institution devised a scheme to illegally accept food stamps from wholesale grocery firms which were not authorized by FNS to accept or redeem food stamps. For this service, the bank officials demanded and received cash payments of 4 percent of the face value of the food stamps deposited. Investigation disclosed that these firms made illegal deposits of at least $500,000 in food stamps. The bank officers were not prosecuted in exchange for information they provided which led to guilty pleas by three wholesale grocery store owners for the illegal food stamp deposits and the recovery of more than $100,000 in stolen food stamps. The stolen food stamps were part of a $4 million food stamp theft from the U.S. Banknote Company, a Philadelphia based currency printer with contracts to print food stamps for the U.S. Government.

The use of fictitious identities in schemes to defraud government programs has also appeared widely in food stamp cases. Schemes of this sort may be elaborate and conspiratorial, with the creation of multiple, fictitious recipient files or they may be simple, individual acts, involving only one false identity. In FY 1985 three cases of significance received the attention of the courts:

> A food stamp Eligibility Specialist (ES) working in one State's Department of Social Services (DSS) was the leader of a ring which fraudulently acquired approximately $42,000 in food stamps. The ES worked with family members and two migrant worker camp bosses to create approximately 40 fictitious food stamp recipient files. The family members and migrant worker camp bosses provided legitimate names and social security numbers to the ES. The ES then created the documents and files needed to load the DSS computer system, which automatically resulted in the issuance of food stamps and identification cards. The ES has pled guilty and another 15 people have been indicted for their participation in the fraud ring.
>
> A person pled guilty in another State to fraudulently obtaining $13,000 worth of food stamps over a 4-month period. Eighteen different aliases were used to obtain food stamp benefits in 18 different jurisdictions within the State. The person used false birth certificates to obtain driver's licenses for each alias. Using one of the aliases, the person obtained a retailer's authorization number from FNS enabling redemption of approximately $11,000 worth of the food stamps for cash at authorized banks. At the time of these offenses the person was on probation from another State for participating in a similar fraud operation involving more than $500,000 in food stamps. The scheme was discovered by an alert state employee who had just completed a training session on how to identify persons fraudulently applying for welfare benefits.

In a western State, a food stamp caseworker and an accomplice have been indicted for conspiring to fraudulently acquire approximately $4,838 in food stamps. The caseworker used his position to establish a fictitious food stamp recipient file for himself and his co-conspirator and had the food stamps mailed to a post office box.

Women, Infants and Children (WIC) Program

Forty-three employees of what was formerly the largest WIC vendor company in one State have been arrested for altering and forging WIC vouchers.

These individuals were involved in a scheme in which 78,600 WIC vouchers, were redeemed through their employer. The total value of these vouchers is approximately $709,000. Six individuals have already entered guilty pleas and await sentencing.

In another State six individuals who were owners or employees of three different grocery stores pled guilty to defrauding the WIC Program. Over a period of several years, the individuals improperly collected about $280,000 in WIC funds by submitting inflated WIC vouchers. The bulk of the evidence obtained in these investigations was through the use of search warrants which were served by OIG Agents with the assistance of the State Division of Criminal Investigations and U.S. Postal Inspectors.

Child Care Food Program (CCFP)

A joint investigation with one State's Department of Human Resources resulted in the indictment of 19 persons for fraudulently obtaining $25,000 in CCFP funds. Seventeen of these persons have pled guilty, one had the charge dismissed, and one is awaiting trial. In related investigations, one individual pled guilty to making false claims to obtain $4,000 in CCFP funds. Another individual pled guilty to fraudulently obtaining $22,000 in CCFP funds. At the sentencing of one of the individuals, the presiding Judge said: "Let the message go out that this kind of thing won't be tolerated. I can't let the general public and people who administer these programs for the poor get the impression they can take advantage of the programs."

In one State a series of investigations were conducted involving $31,000 in fraudulently obtained funds from the CCFP. Each of the six persons investigated operated a child care facility and submitted false claim vouchers to FNS overstating the number of children enrolled in the facility and the number of meals served. All six persons have been indicted; three have pled guilty to fraud.

In another State the executive director and the treasurer of one of the largest boys' clubs in the State submitted fraudulent reimbursement claims while participating in the CCFP. Assisting them in this conspiracy were two restaurant owners who supplied the meals for the boys' club. The scheme occurred over a 3-year period and resulted in approximately $342,243 in false claims. The four persons involved were indicted for embezzlement and falsification of the records relating to those claims. Two of these persons have pled guilty.

Summer Food Service Program (SFSP)

In one State the director of a SFSP, which operated through a nonprofit health services organization, was found to have mismanaged and embezzled SFSP funds. The director embezzled at least $1,500 in SFSP funds and used other SFSP monies to purchase $4,500 worth of food items for her use and the use of others. The director mismanaged the SFSP by failing to sufficiently document the expenditure of $7,000 in consulting fees, and by commingling SFSP funds with the health services' general fund account. The director was indicted for embezzling SFSP funds.

Food Distribution Programs

In one State the owner of a food processing company contracted with another State to cut, wrap, and repackage 800,000 pounds of USDA aged cheddar cheese per month. The owner substituted a less expensive, lower quality cheese for a quantity of the aged cheddar and then sold the aged cheddar for a 20-cent-per-pound profit. The owner pled guilty to this fraudulent scheme in Federal court. Prior to the owner's conviction he had planned to obtain additional State contracts for processing more USDA cheese.

FOREST SERVICE (FS)

In FY 1985 we issued 32 reports of investigation relating to FS employee misconduct and other matters. Examples of these cases follow:

An investigation documenting mismanagement of timber sales on a National Forest showed a potential loss to the FS in excess of $6.0 million. Based on our findings the FS effected or proposed numerous personnel actions on the Forest ranging from the transfer of the Forest Supervisor to the reassignment, demotion, suspension, or reprimand of seven other FS employees. Criminal activities disclosed by the investigation have been referred to the U.S. Department of Justice.

A former FS employee was indicted and convicted on four counts of mail fraud, three counts of false record keeping by a government employee, and one count of embezzlement for preparing approximately $9,700 in false claims of cash payments to firms doing business with the FS. The employee was placed on five years probation and ordered to make restitution.

A former FS employee stole government travel requests, falsified travel vouchers, and forged a supervisor's signature in order to receive $3,083 in government funds for personal use. The employee was indicted and pled guilty to one count of submitting fraudulent claims.

FOREIGN AGRICULTURAL SERVICE (FAS)

In FY 1985 we issued 8 reports of investigation pertaining to FAS activities. Last year we cited irregularities in the USDA Sugar Re-export Program which allows FAS-licensed sugar refiners to make quota-free imports of foreign sugar for the purpose of refining and re-exporting it to world markets. Since July 1984, OIG and the U.S. Customs Service have been conducting a joint investigation which disclosed that certain sugar brokers had defrauded the Program by diverting large quantities of nonquota sugar to U.S. domestic markets resulting in false claims by FAS-licensed refiners for refunds of customs duties paid on the foreign sugar. As a result of the investigation, a Federal Grand Jury has thus far indicted 14 individuals and 13 companies on charges of defrauding the Program by the illegal diversions of the foreign sugar. Three of the individuals failed to appear and are classified as fugitives. The remaining 11 persons and 13 companies have pled guilty and have been fined and ordered to make restitutions totalling more than $1.7 million. Nine of the individuals also received jail terms ranging from one to 40 months. As an additional result of the investigation, OIG was able to assist FAS in bringing about a major revision to the regulations which makes it more difficult for firms/individuals to violate the re-export provisions of the Program. Investigation of this matter is continuing.

FEDERAL CROP INSURANCE CORPORATION (FCIC)

In FY 1985 we completed action on a major investigation which is summarized below:

> A Federal Grand Jury in one State returned a 121 count indictment against a grape grower for conspiracy to defraud the government in a $2.1 million dollar insurance fraud. The indictment charged that the grower, in concert with two business associates, submitted false insurance claims to FCIC by overstating the value of insured acreage and tons of grapes for prior years and understating the actual production of grapes for claim years. The associates assisted the grower in concealing his actual production by allowing him to market his insured grapes in their names or through their business outlets. Approximately one half of the actual production of grapes on insured units was unreported to FCIC on the subject's insurance claims. The grower received $1.1 million from FCIC for the 1982 claim year and filed claims for another $1.0 million for 1983. As a result of an OIG preliminary report, FCIC has suspended payment on the 1983 claims and initiated action to recover all monies paid to the subject in 1982.

FOOD SAFETY AND INSPECTION SERVICE (FSIS)

In FY 1985 we issued 67 reports of investigation for FSIS. Examples of our investigative efforts follow:

> In one State gratuities were given to three meat inspectors who worked at local plants. One of the inspectors was convicted for accepting gratuities. A second inspector pled guilty to three counts of accepting gratuities; and a third inspector was arrested after OIG investigators observed plant employees placing two boxes of meat in his car.
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> In one State an inspector was indicted for accepting gratuities and a loan from a packer, and for making a false statement to the Government by preparing a false statement as to his outside employment. Trial is pending in this case.
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> In one State OIG agents arrested the manager of a poultry processing plant for attempted bribery of the USDA poultry inspector assigned to his plant. The manager wanted the inspector to look the other way while plant employees added excess water to chicken products. The inspector reported the attempt to OIG. During the course of the investigation, the manager made 12 payments of cash, totalling $435, to the inspector. The investigation resulted in the indictment of the plant manager on 12 counts of bribery of a Government official. The plant manager subsequently pled guilty to one bribery count and faces up to 15 years in prison and $20,000 fine. Sentencing is pending.
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> The owner and operator of a meat packing plant in another State was sentenced for conspiring to slaughter uninspected cattle, swine and sheep, and selling the meat products for human consumption. The defendant illegally possessed and used an official USDA inspection stamp to falsely represent the products as inspected. He also mislabeled products as containing beef when some of the products also contained pork.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

In FY 1985 we issued 25 reports of investigation for APHIS. Three examples follow:

> In one State a man has been found guilty in U.S. District Court for smuggling parrots into the United States. This individual had been

previously arrested by the U.S. Border Patrol on information provided by OIG that the man planned to smuggle the birds into the country from Mexico. The importation of birds that are not properly placed in a USDA quarantine station can be disastrous to the United States poultry industry due to the possible introduction of the deadly Exotic Newcastle's Disease.

OIG was called upon last fall to assist a Federal and State task force with the eradication of citrus canker in one State. If unchecked, canker, a highly contagious disease that kills trees but is harmless to humans, could cause severe economic losses in the Nation's citrus industry. Our personnel traced movements of citrus trees and seedlings which could have carried the disease, helped pinpoint outbreaks of the disease, served administrative subpoenas, formulated investigative questionnaires, established a computerized record system, and provided daily operational support. The task force quarantined several nurseries, halted movements of plants which could have carried canker, and incinerated millions of trees and seedlings.

USDA GRADUATE SCHOOL

Significant Weaknesses Found in the Management of the USDA Graduate School

In response to a whistleblower complaint which alleged fraud and mismanagement, we conducted a coordinated audit and investigation which identified system deficiencies in the USDA Graduate School (GS) operations.

Our investigation disclosed that the former Director, Special Programs, entered into an arrangement with a contractor, a former Associate Assistant Secretary, U.S. Department of Labor, to obtain money from the GS through $8 million in interagency agreements with the U.S. Department of Army. In 1983 and 1984, they devised a scheme in which they submitted time sheets for fictitious employees. The time sheets were prepared and signed by the GS, Special Programs Director and contractor, and submitted to the GS Business Office for payment.

The GS Business Office prepared disbursement checks to the contractor for the fictitious employees. The contractor deposited the checks in his bank account and disbursed about half of the proceeds to the GS, Special Programs Director. Between August 1982 and April 1984, the contractor was paid $194,000 in Federal funds by the GS.

The GS official and his wife, were charged with filing false statements and demands against the U.S. (Title 18 U.S.C. 1001 and 1003) on information filed by the U.S. Attorney, District of Columbia. They entered guilty pleas on November 1, 1985.

Based upon the results of the investigation, the Executive Board of the Graduate School sought and received the resignation of the School's Director.

TUESDAY, MARCH 18, 1986.

RURAL ELECTRIFICATION ADMINISTRATION

WITNESSES

FRANK W. NAYLOR, UNDER SECRETARY, SMALL COMMUNITY AND RURAL DEVELOPMENT

HAROLD V. HUNTER, ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION

JACK VAN MARK, DEPUTY ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION

DONALD L. OLSEN, ACTING ASSISTANT ADMINISTRATOR—ELECTRIC, RURAL ELECTRIFICATION ADMINISTRATION

JOHN H. ARNESEN, ASSISTANT ADMINISTRATOR—TELEPHONE, RURAL ELECTRIFICATION ADMINISTRATION

BLAINE D. STOCKTON, JR., ASSISTANT ADMINISTRATOR—MANAGEMENT, RURAL ELECTRIFICATION ADMINISTRATION

RUTH RAYMOND, DIRECTOR, OFFICE OF BUDGET, RURAL ELECTRIFICATION ADMINISTRATION

MICHAEL W. KELLY, ASSISTANT GENERAL COUNSEL, ELECTRIC AND TELEPHONE DIVISION, OFFICE OF THE GENERAL COUNSEL

ROBERT E. SHERMAN, DEPUTY DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

Mr. WHITTEN. The Committee will come to order.

We are glad to have with us today Mr. Naylor from the Secretary's office and Mr. Hunter, Administrator REA. If there is anyone new, we would be glad to have their biographical sketch for the record.

I have glanced at your prepared statements. They would carry more weight with me except that for years the Administration has attempted to get rid of the REA and turn it over to private companies. We have also had to struggle against that in other places such as the TVA. I recognize the sincerity of those that would turn it over to private enterprise; but the Congress has differed.

What bothers me this year is that none of these cuts that have been proposed for the Department, which abolishes many of the programs including yours, reduces by one nickel the deficit or the debt. The military had a carryover of $244 billion at the beginning of this year and for all of these cuts that you are recommending on agricultural programs on which American people must depend, the money is going to increase the carryover of military spending, from $244 billion to $299 billion.

You can see why I am not very sympathetic. These proposed cuts penalize the American people and the American farmers, where there have been about 60 suicides to date. If those farmers lived in Ethiopia, we would have a budget request to do something about it. We know because we have had it. I have little sympathy for these proposals, as you can appreciate. I am glad to see you because I like you all as individuals. We would be glad to hear from you.

Mr. NAYLOR. Mr. Chairman, we appreciate as always the opportunity to appear before your Committee. I have Mr. Hunter with me, who is the Administrator of REA, who has his statement to present and then we will be prepared to answer any questions which you and your Committee members may have.

Mr. WHITTEN. I would be glad, when you get through with your prepared statement, for you to tell us what you can do to improve electric and telephone service to the rural areas, which constitute about 80 percent of the country.

BUDGET OVERVIEW

Mr. HUNTER. Mr. Chairman, it is a privilege to appear here before you and the Committee. I do have a written statement, which with your permission, I will summarize.

REA has achieved many of the goals established by the Congress. It has succeeded in bringing quality electric and telephone service to rural America. Through REA's direct loan and loan guarantee programs, approximately $62 billion has been provided to rural electric and telephone utilities. Today's statistics attest to the success of the program.

There is a small chart in my prepared statement to summarize that success. It shows that REA electric borrowers provide service over 2,082,100 miles of lines to 10,836,400 consumers. This service reaches 11 percent of the total U.S. population; 98.8 percent of the nation's farms now have electric service.

REA financed telephone service extends over 868,300 miles of lines to 4,746,900 subscribers. This amounts to four percent of the U.S. population and includes 96 percent of the farms in this country.

Both electric and telephone borrowers' financial operations have steadily improved in recent years. We recognize that other rural economic indicators are negative and the agriculture community is suffering losses. However, the margins of the REA borrowers are sufficient to absorb an increase in those borrowers' cost of operations without further adversely affecting the economics of the agricultural community.

Over the last two decades, the number of consumers served by REA borrowers has doubled from about 7 million to 14 million while the overall population in rural America has diminished.

REA borrowers have avoided many of the problems encountered by other sectors of rural America. REA telephone borrowers have prospered dramatically during the Reagan years. They have experienced substantial improvements in their revenue flows, thereby increasing the level of internally generated funds available for construction of any new facilities.

A chart in my prepared statement illustrates that REA telephone borrowers have done exceedingly well during these last few years.

I would draw your attention principally to the second item which deals with the total net margins of our telephone system. It shows an increase from $262 million of margins to $446 million in those five years, which is almost a doubling of their margins they have earned.

The other numbers that are presented here are similar in showing the healthy situation of our telephone borrowers.

The next chart deals with the electric distribution borrowers and shows again, the total net margins had more than doubled in those five years.

All these things are indicative of the healthy situation that our REA borrowers have been able to achieve in these recent years.

The consistently favorable financial trends reflected above for REA borrowers, both electric and telephone, illustrate that reduction in Federal financing assistance will not jeopardize the economic health of these two industries.

Most of the 63 REA generation and transmission cooperatives are on a stable course, several are experiencing serious financial problems, arising from their participation in the construction of major generating facilities. REA is working with these troubled G&T borrowers and is providing assistance consistent with the program objectives and with our consumers' needs.

U.S. agriculture is currently experiencing, as you have indicated, very severe economic stress. The Federal Government is striving to bring its fiscal affairs into balance. At the same time, the rural electric and rural telephone industries have been enjoying a relatively prosperous era due to substantial interest subsidies and service to non-rural areas.

Given the economic crisis facing the United States agricultural community, it is unreasonable to expect the Federal Government to continue to subsidize the prosperity of REA borrowers particularly without regard for the wide variance in revenue potential among those borrowers. This cannot be reconciled with the goal to diminish the Federal burden upon the taxpayer.

As to the budget proposal itself, it is consistent with the President's goal of reducing Federal expenditures, and increasing the use of private capital markets.

To touch on the loan programs, the proposed 1987 budget estimates reflect a continued decrease in anticipated loan demand. As elsewhere in the electric industry, REA borrowers have surplus generating capacity and project only modest growth in electric demand. The budget proposal provides for $375 million in insured electric loans and $225 million in electric loan guarantee commitments. The guaranteed funds will be used mainly to cover cost overruns on current generation projects.

The reduced loan levels in the 1987 budget proposal reflect two trends among the REA electric cooperatives. REA electric distribution borrowers have shown steady improvement in their financial strength. There is every reason to believe that based on the borrowers' outstanding record, they have achieved the financial strength necessary to obtain increased levels of funding through private channels.

Private financing institutions, including the National Rural Utilities Cooperative Finance Corporation, CFC, and the Banks for Cooperatives, are working to expand their activities in the rural utility business. With the continuing decline in interest rates, an increase in the amount of private capital from these sources will not have a significant adverse effect on the borrowers' composite interest expenses.

Secondly, construction activity by REA power supply borrowers has dwindled. With excess generating capacity existing now and modest projections in future electric demand, generation and transmission borrowers will not be constructing new generating facilities.

Reduced REA insured loan levels will not adversely impact the borrowers that need funds for rural electric and telephone systems, as private markets will be available to supplement the financial needs of REA borrowers. Through your efforts, the Farm Bill allows all REA electric and telephone borrowers to be eligible for loans from the Banks for Cooperatives.

For the telephone program, we are requesting $60 million in insured loans and $139 million for the Rural Telephone Bank. No funds for telephone loan guarantee commitments are being requested. No appropriation is being proposed for the capitalization of Rural Telephone Bank stock. These funds are not needed. The Bank is allowed to borrow up to 20 times its paid-in capital and retained earnings.

Consistent with the 1987 proposals, we are requesting rescission of the $30 million of the Class A Stock of the Rural Telephone Bank, appropriated during fiscal year 1986. These funds would be excess capital because the Bank has virtually unlimited authority to borrow from Treasury.

The budget also includes the proposed rescission of the $100 million in direct appropriations made available in 1986 for reimbursement to the REA revolving fund. During 1984, the year on which the appropriation is based, the revolving fund had a net cash income of more than $83 million. A reimbursement to the fund is not needed.

We are proposing to end the interest subsidy on REA loans by raising the five percent interest rate to the cost of money to the Treasury plus 1⅛ percent. Treasury plus 1⅛ percent is approximately the equivalent of the interest rate for AA rated utilities. Many of our borrowers could qualify for such a rate on the open market. Some, however, would receive lower ratings, would have to pay a higher interest rate for private capital. These borrowers would still receive REA loans at a rate below what they would be offered on the open market.

Interest expense represents between four and five percent of a borrower's total operating expenses. Market interest rates such as Treasury plus 1⅛ percent would mean an increase of only about 65¢ more per month for the average residential electric consumer.

We are also proposing that REA assess an annual fee on all REA guaranteed power supply borrowers to cover the principal and interest losses that have resulted from non-payments of G&T borrowers.

Changes are needed in REA's loan procedures to better target the use of Federal loan funds. The Office of Inspector General has indicated and, I concur, that REA should not be lending funds to financially successful utilities serving predominately non-rural areas. Statutory language prevents REA from targeting loans to borrowers based on need. Passage by Congress last year of an amendment striking our general fund policy forces REA to lend precious resources to any applicant regardless of the amount of excess funds held by the borrower.

Salaries and expenses funds for the operation of the Agency would require $26,355,000 in 1987. The budget proposes to charge an upfront user fee of five percent on insured loans to finance a portion of the administrative costs of the Agency. In fiscal year 1987, we expect to receive approximately $22 million from the five percent fee on insured loans and would require only $5 million in appropriated monies.

The budget proposal provides for a staffing level of 535 people, a reduction of 45 from current employment, which can be achieved through normal attrition. Over the past three years, a period in which we have experienced a decrease in our employment levels, we have seen the time it takes to process a loan application reduced considerably. We feel that the 535 staff years will be adequate to administer the proposed programs during fiscal year 1987.

The budget contains long range proposals for the Congress to consider and includes a recommendation to gradually phase out REA and the Rural Telephone Bank lending activities by 1990. It provides for appropriate staffing levels necessary to process loan applications during fiscal year 1987 through 1990 and to service the approximately $38 billion in loans and loan guarantees currently outstanding.

These proposals are consistent with the Balanced Budget and Emergency Deficit Control Act of 1985 which mandates that reductions be made in the Federal deficit. In view of the nation's sound financial climate and the improved economic status of the rural utility industries, now is the time for cooperatives to become less dependent on the Federal Government and more in control of their own destiny.

In conclusion, Mr. Chairman, most REA borrowers are in the best financial condition of their history. REA has helped them build systems which fully meet the needs of today's consumers and those of the immediate future. The time has arrived for Congress to further implement the policy it set forth in the 1973 rural electrification and telephone revolving fund legislation when Congress said:

> ...rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms consistent with the loan applicant's ability to pay and achievement of the Act's objectives.

The Act's objectives have been met. The sources of credit are available and in place. The costs of that credit are lower now than at any time in recent memory. Most importantly, our borrowers have obtained the financial strength to get credit elsewhere.

I support the President's 1987 budget proposals for REA programs and I respectfully urge that you and this Committee support them also.

Sir, this is the end of my remarks. We would be glad to answer any questions.

[The full text of Mr. Hunters prepared statement appears on pages 449 through 456. The explanatory Notes appear on pages 459 through 518.]

Mr. WHITTEN. Mr. Naylor, do you have any remarks?

Mr. NAYLOR. No, Mr. Chairman.

Mr. WHITTEN. Let me say that I like both of you and don't question your beliefs. But what we have seen happen this year throughout agriculture, with a total $212 billion debt, has been caused, in part by the Government passing laws that had no ceiling on the amounts of assistance that could be received. We made millionaires out of a lot of folks by reason of having no ceiling on the emergency loan program. This was before your days.

This was on "60 Minutes," which had an investigation that found in some states, if a person had three farms and lost money on one but got rich on the other two, the government would pay the losses on the one. The Government would send a fellow who was making a few hundred dollars a month out to deal with millionaires.

Then we come along and, in order to please the State Department and its desire to get along with our competitors, we held United States farm production off of world markets. Under the embargoes, if a dealer bought from the farmer and could not deliver to Russia, the government paid him. But the farmer had to absorb his losses.

But historically, this administration and your predecessors, have been attempting to get rid of the REA and TVA—I have been here and I know TVA under law has to pass on the benefits to the user. There have been periods where in the 80th Congress, they tried to finance the local football games and anything else to increase the costs so as to increase the rates. We had Dixon-Yates, which you may remember.

What you are asking here is to do what you wanted to do all along, even before we got into this balanced budget business. According to the records, under the insurance programs we let the insurance companies get a cut. Here you say let private enterprise do it so that they can make a profit out of it.

I recall, and you heard me tell this before. Shortly after I became a member of Congress, the circuit judge with whom I worked as a District Attorney had this fellow come to me, and he said to me,

"Jamie, I have a friend"—and he called this fellow's name who came to see me—"who wanted me to write you. He says the Farmers Home Administration every time it makes a loan in his area, is giving his brother a kickback, a rake-off." He said, "I told him that I would write you and I knew you were opposed to that type of thing and would put a stop to it." He said, "Judge, I don't want that, I want him to cut me in on it."

So, consistently you have been trying to cut folks in on Federal programs so they can make a profit. That is what you are saying here. But I repeat again, you can give them a profit but it doesn't do anything towards balancing the budget, it doesn't do anything towards the deficit or the debt, because this budget provides that all these funds will be turned over to the military, which already has a carryover of unspent funds at the beginning of this year of $244 billion, and the budget calls for them to increase that to $299 billion at the end of the year.

I have had the staff to bring up to date just what has happened, and we have put that in the record here before. It shows just what has happened throughout the country. Because my name is on a whole lot of the legislation involved, I wanted to put in the record what has happened since I came to Congress in the 80 percent of this country which is rural. It is unbelievable how good it is.

May I point out, too, that you are complaining about 80 percent of this country having continuing improvement in the availability of electricity, telephones and all these other things, at a time when we are trying to finance the world. The record shows that we are selling guns, ammunition, and planes to 125 countries where what those people need is food and clothing.

We are making loans and grants around the world. But when it comes to our home folks we hold back. If the farm situation was bad enough in Colombia, if it was bad enough in El Salvador or Nicaragua, the Administration would come here and ask us to provide money—and we would provide some money. But when American agriculture is in such a fix that people are committing suicide, you find no sympathy for them.

A woman from my State called me yesterday. She and her husband have a 40-acre farm. They have raised 13 children. Now the Government is going to put them out of business. I wouldn't want credit for that if I were you. It's in Mississippi. They have raised 13 children and are now desperate. Yet, the Government can't see fit to give them another chance.

I don't know what to say except I don't agree with you.

PRESIDENT'S BUDGET

Mr. **WHITTEN**. Please provide, by loan program, the funding levels you requested of the Under Secretary, the levels the Under Secretary requested of the Secretary, the levels the Secretary requested of OMB, and the OMB allowance for fiscal year 1987.

Mr. **HUNTER**. The Rural Electrification Administration's Appropriation History will be provided for the record.

[The information follows:]

APPROPRIATION HISTORY RECORD FY 1987 REA BUDGET

[Dollars in millions]

	Agency request	Under Secretary's request	Secretary's request to OMB	OMB allowances
Loans and Guarantees:				
Electric Program:				
Insured loans	$450	$450	$450	$375
Loan guarantees	800	800	300	225
Total Electric Program	1,250	1,250	750	600
Telephone Program:				
Insured loans	100	100	100	60
Loan guarantees	15	15	15	
Rural Telephone Bank loans	200	200	200	139
Total Telephone Program	315	315	315	199

Mr. WHITTEN. In addition to increasing the interest rate on direct loans from 5 percent to the cost of Treasury borrowing plus 1⅛ percent, you are proposing to assess a user fee of 5 percent on each loan to cover the cost of administering the REA programs. If, as your budget suggests, you would restrict the loan programs to financially weaker borrowers, is this not going to be a hardship on the borrowers who can least afford the additional cost?

Mr. HUNTER. The fee could be a disincentive to some borrowers. However, it could serve as the impetus some borrowers need to consider structural changes in their system. REA has studied the costs of doing business based on size of cooperatives and has found that the larger co-ops save significant sums due to broader utilization of their resources. Weaker co-ops should consider merging with other co-ops in order to provide service at a more reasonable cost to their consumers. Increased lending costs, as proposed, may encourage such mergers of other efforts by co-ops to better utilize their resources.

Mr. WHITTEN. Will the 5 percent user fee be assessed on those borrowers qualifying for 2 percent loans?

Mr. HUNTER. The proposed user fee will be applicable to all borrowers receiving new insured loans.

Mr. WHITTEN. Have you established criteria to determine the financially weaker borrowers?

Mr. HUNTER. We have not decided upon the final criteria for identifying financially weaker borrowers.

Mr. WHITTEN. Have you assessed what the increased interest cost and user fee would do to the rate structure of the financially weaker borrowers?

Mr. HUNTER. Increasing the interest rate to the cost of Treasury borrowing plus 1⅛ percent would mean an increase of about 65 cents more per month for the average residential electric consumer if the cooperative obtains new loans at the higher interest rate. Since the user fee would be a one time fee, the impact of the 5 percent fee over the life of the loan would be minimal, even on financially weaker borrowers.

Mr. WHITTEN. If, as you are recommending, the loan programs are phased out in 1990, what would you use to pay REA's administrative costs?

Mr. HUNTER. If REA's loan programs are phased out in 1990, the agency would request a direct appropriation to fund necessary administrative costs.

Mr. WHITTEN. You are proposing to assess a fee on all outstanding generation and transmission loans to cover losses to the program. Do you have a legal opinion citing your authorities to assess such a fee? How do you propose to implement this requirement?

Mr. HUNTER. The legislative proposal to assess a fee on G&T borrower's assets ratio for losses is currently going through the review process and we do not have an opinion of counsel as yet. Until such time that we have a bill ready for submission to the Congress, it would be premature to discuss the specifics of the fee implementation.

Mr. WHITTEN. Has legislation been submitted on these and other changes you are proposing in the REA programs?

Mr. HUNTER. No, the legislation has not been submitted at this time.

LOAN ASSET SALES

Mr. WHITTEN. The Administration's budget proposes to test the feasibility of selling a portion of the loan assets of the Rural Electrification and Telephone Revolving Fund. Have you developed criteria for such a sale?

Mr. HUNTER. We are beginning work on the proposed asset sales for fiscal year 1987 and do not have criteria finalized at this time.

Mr. WHITTEN. Have you identified prospective buyers of these loans?

Mr. HUNTER. A number of financial institutions in the private sector have expressed an interest in the asset sale proposal.

Mr. WHITTEN. Will the loans be sold outright or through certificates of beneficial ownership?

Mr. HUNTER. Currently we are planning to sell the loans outright, including the servicing, without recourse.

Mr. WHITTEN. Will not the sale result in the loss of principal and interest due to the revolving fund?

Mr. HUNTER. The sale of REA loan assets will result in a prepayment of principal to the revolving fund. The prepayment of principal will be discounted to reflect the present value of future dollars at current yield. With the additional cash, REA will be able to meet its current obligations and will not have to borrow money by selling Certificates of Beneficial Ownership (CBO's) to the Treasury. The agency will not have to pay approximately 8 percent for use of the Treasury's funds which will outweigh the lost interest income of 2 and 5 percent loans.

Mr. WHITTEN. Please provide an estimate of the lost principal and interest per $100 billion in sales.

Mr. HUNTER. The principal and interest losses would amount to approximately $80 million, offset by $168 million in savings on CBO interest expenses. The revolving fund would have an estimated gain of $88 million per $100 million in loan asset sales.

ELECTRIC LOAN PROGRAM

Mr. WHITTEN. Would you please provide for the record a listing, by State, of pending loan applications on hand as of the end of February 1986?

Mr. HUNTER. As of February 28, 1986, the REA electric program had 27 applications pending for insured loans in the amount of $118,700,000 and 6 applications for loan guarantee commitments in the amount of $205,074,000. A listing by state of total applications pending will be provided for the record.

[The information follows:]

RURAL ELECTRIFICATION ADMINISTRATION PENDING ELECTRIC LOAN APPLICATIONS AS OF FEB. 28, 1986

State	Number of insured applications	REA amount	Number of guaranteed applications	Guarantee amount
Alabama	1	$1,196,000		
Arkansas	2	25,446,000	1	$34,609,000
Arizona	1	7,029,000		
Colorado			1	103,640,000
Illinois	1	2,900,000		
Iowa	1	1,665,000		
Kansas			1	24,473,000
Kentucky	4	9,545,000		
Maryland	1	13,300,000		
Mississippi	1	6,596,000	1	13,273,000
Missouri	1	7,825,000		
Montana	1	2,667,000	1	999,000
New Hampshire	1	12,209,000		
New Mexico	1	989,000		
North Dakota	1	2,277,000		
Pennsylvania	1	3,203,000		
South Dakota	1	505,000		
Texas	6	20,041,000	1	28,080,000
Vermont	1	1,012,000		
Washington	1	295,000		
Total	27	118,700,000	6	205,074,000

Mr. WHITTEN. What is the number and dollar amount of electric loans that have been approved thus far in fiscal year 1986?

Mr. HUNTER. Between the period October 1, 1985, and March 24, 1986, applications for 37 electric insured loans in the amount of $99,530,000 and 5 loan guarantee commitments in the amount of $1,072,460,000 were approved.

Mr. WHITTEN. How many of those applications pending and approved are for 2 percent loans?

Mr. HUNTER. Currently on hand we have only one application for a 2 percent loan. The request is from the Kotzebue Electric Association, Kotzebue, Alaska, in the amount of $1,896,000. This fiscal year REA has not approved any electric loans at the 2 percent interest rate.

TELEPHONE PROGRAM

Mr. WHITTEN. Would you please provide for the record, a listing, by State, of the pending telephone loan applications on hand as of the end of February 1986? Please distinguish between direct and guaranteed loans.

Mr. HUNTER. We expect all telephone loans to be direct loans from the revolving fund or Rural Telephone Bank. A listing by state of total pending loan applications on hand as of February 28, 1986, will be provided for the record.

[The information follows:]

RURAL ELECTRIFICATION ADMINISTRATION PENDING TELEPHONE LOAN APPLICATIONS AS OF FEB. 28, 1986

State	Number	Amount
Alabama	2	$6,600,000
Alaska	3	5,200,581
Arizona	1	1,311,000
Arkansas	5	11,269,000
California	1	657,000
Georgia	1	5,000,000
Indiana	4	8,000,000
Iowa	14	9,646,500
Kansas	3	14,307,840
Kentucky	1	3,200,000
Louisiana	2	4,926,000
Maine	1	1,000,000
Michigan	4	35,621,600
Minnesota	11	28,678,950
Mississippi	6	11,100,000
Missouri	2	6,100,000
Montana	1	6,250,000
Nebraska	6	15,630,000
Nevada	1	20,000,000
New Hampshire	1	500,000
New Mexico	3	5,000,000
New York	5	8,278,000
North Carolina	5	20,845,000
North Dakota	2	7,500,000
Ohio	4	4,100,000
Oklahoma	3	4,742,000
Oregon	4	12,206,600
South Dakota	5	10,610,000
Tennessee	5	39,350,000
Texas	10	52,456,700
Utah	2	3,046,000
Washington	2	1,202,250
West Virginia	1	1,100,000
Wisconsin	4	3,099,000
Micronesia	2	9,650,000
Total	127	378,184,021

Mr. WHITTEN. What is the number and dollar value of the loans approved thus far in fiscal year 1986?

Mr. HUNTER. As of March 21, 1986, 10 RTB loans totalling $11,666,550 and 18 5 percent REA telephone loans totalling $48,851,000 had been approved this fiscal year.

Mr. WHITTEN. What percentage of the people in rural America have no telephone service?

Mr. HUNTER. Approximately 4 percent of rural Americans are without telephone service, either by their own choice or because facilities are not available to serve them.

Mr. WHITTEN. What percent have multi-party service?

Mr. HUNTER. As of December 31, 1984, 12.8 percent of residential subscribers and 11.7 percent of all subscribers in REA-financed systems were receiving multi-party service. We do not have information on other rural systems.

ORGANIZATIONAL CHANGES

Mr. WHITTEN. Are you planning any internal organizational changes? If so, what is the rationale for those changes?

Mr. HUNTER. We have a reorganization proposal under review at this time in the Department. The proposal reduces the number of areas in each of the electric, telephone, and accounting programs from five to four. The purpose of the organizational change is to better utilize agency employees and remain within our staff-year ceiling.

Mr. WHITTEN. What is the status of the consolidation of the administrative functions among Farmers Home, REA, and FCIC?

Mr. HUNTER. The consolidation of the administrative functions of the REA, FCIC, and FmHA is on hold at this time, pending a decision by the Secretary's office on the recommendation of the Secretary's Task Force on Streamlining USDA.

SALARIES AND EXPENSES

Mr. WHITTEN. The fiscal year 1987 budget proposes to reduce REA staff years from 600 to 535. Will this necessitate a reduction-in-force action?

Mr. HUNTER. We expect to reach our employment ceiling through normal attrition. Therefore, a reduction-in-force will not be necessary.

CONFERENCES

Mr. WHITTEN. Did REA hold any management conferences outside the Washington area during fiscal year 1985? If so, where were they held, who attended, and what was the cost?

Mr. HUNTER. I will provide a list of conferences for the record.

[The information follows:]

Approximately 190 Washington staff and field employees attended the 1985 National Conference in San Antonio, Texas in July 1985. The approximate cost of this was $137,000.

Following is a list of training conferences held in fiscal year 1985.

Where held	Number of REA people attended	Cost
Electric program interim conferences:		
Philadelphia	15	$5,789
Tampa	13	8,229
Minneapolis	11	5,334
Fort Worth	12	5,620
Denver	14	9,055
Total	65	34,027
Telephone program interim conferences:		
Raleigh	15	5,834
Minneapolis	11	4,509
Jacksonville	13	4,769
Tulsa	12	4,398
Reno	13	8,454
Total	64	27,964

—Continued

Where held	Number of REA people attended	Cost
Borrower Accounting and Services Division interim conference: Fort Worth	52	25,800
CPA Seminars:		
Chicago	10	2,925
Denver	12	3,625
San Francisco	7	2,175
Dallas	14	3,555
Atlanta	15	4,020
Total	58	16,300

Mr. **Whitten**. Did any REA employees travel outside the United States on REA business during fiscal year 1985? If so, please provide the details of such travel for the record.

Mr. **Hunter**. The information on travel outside the United States during fiscal year 1985 will be supplied for the record.

(The information follows:)

FY 1985 TRAVEL OUTSIDE THE UNITED STATES

Name and Destination	Purpose Code [1]	Dates of Travel	Cost
William F. Albrecht, Guam/Saipan	1	11/26–12/14/84	$2,842
Bing C. Chan, Montreal, Canada	5	10/15–17/84	501
Leonard Cobia, San Juan, P.R	1	11/25–12/1/84	1,182
Edward Cohen, Toronto, Canada	5	6/17–20/85	613
Clarence Crow, Banff, Canada	5	6/15–20/85	1,380
Ronald E. Dvorak			
Guam/Saipan	1	11/26–12/14/84	3,010
Guam/Saipan	1	8/11–31/85	3,164
Elizabeth A. Gorski, Guam/Saipan	1	2/02–15/85	2,496
Peter F. Jackson, Vancouver, B.C	5	7/14–19/85	1,115
John B. Marti, Guam/Saipan	1	2/02–15/85	2,660
Robert Peters, Guam/Micronesia	1	3/17–4/5/85	3,279
James A. Ruspi, San Juan, P.R	2	6/09–14/85	1,012
Larry E. Sevier, Guam	1	11/26–12/14/84	2,813
Glenn M. Sperle, Toronto, Canada	3	11/25–30/84	740
Bill M. Taylor, San Juan, P.R	1	3/18–31/85	2,041
Roy E. Thompson, San Juan, P.R	1	11/25–12/1/84	1,078
James L. Williams, San Juan, P.R	1	3/18–31/85	2,066
Total			31,992

[1] Travel purpose code 1 = site-visit, 2 = information meeting, 3 = training attendance, 5 = conference attendance.

Mr. **Whitten**. Mrs. Smith.

INTEREST RATE INCREASE

Mrs. **Smith**. Thank you, Mr. Chairman.

Welcome, Mr. Hunter, Mr. Naylor, and all of you.

Mr. Hunter, I listened to your testimony with a great deal of interest, particularly the point where you are suggesting that we raise the interest rate to the current rate of interest plus one-and-an-eighth percent, and then at the top of the next page you say that this would increase the cost per month for the average consumer about 65 cents.

I want to call to your attention that the people out in my district, where we are the second most agricultural district in the nation and probably the most hard pressed district in the nation, we are very heavy users of electricity because we have to pump water to irrigate, we have to dry our corn, so we wouldn't fall into the category of typical consumers at all.

A year ago when Dave Stockman proposed this very kind of a change, I did some work with the university, about how much this would increase the cost to the average type of agricultural producer out in our district, and this is very, very significant and I think it is a change that we really can't stand at the present time.

In this same category is the idea of privatizing power districts like WAPA. We did some research on this that shows a doubling of rates for most of our small communities.

I am wondering if you would like to comment about this problem that would be created by this action.

Mr. HUNTER. Mrs. Smith, your comments are very appropriate. One of the things that we must recognize is that the borrowers of today, the rural electric co-ops of today, are dealing with a clientele which is far changed and far different from the clientele of many years ago. It does include people who have a heavy demand and a heavy usage for farming purposes. But, it also includes many people who are not even farmers; and again, their type of usage can vary and does vary in different parts of the country. We find that in some areas it is almost an urbanized type of user that is part of that picture and uses that electricity.

It seems to me that it is our priority to serve the rural residential user that requires electricity to take care of his needs. That is one reason we picked out that type of user and used it to develop the 65 cents per month.

Now there is a great variety, a great differential in the types of users that the rural electric co-ops serve. Some of these are almost unbelievably highly urbanized and do not represent what we are used to in the usual sense of the rural user.

TARGETING ASSISTANCE

Mrs. SMITH. Are you able to target your assistance to these co-ops based on their service area or financial situation?

Mr. HUNTER. We are required by statute to use the same ratios and criteria which are the mechanism by which we would target the distribution co-ops loan support. We are required by law to use the same ratios and criteria that were in effect in 1982. This requirement does not allow us to make any change and target loan funds.

We cannot take into consideration any other interest rate but 5 percent, except in dire need. We must use the criteria of non-REA funds of 30 percent from the supplemental lenders and 70 percent from REA.

It would help us quite a bit if we could give consideration to the needs of particular areas. Some of those areas have less density, less urbanized, and some have different types of usage. All of these things should be taken into consideration.

Mrs. SMITH. Do you agree that this lack of discretion or direction causes significant difficulties as REA seeks to serve the rural districts and the sparsely-settled districts which REA was designed to serve?

Mr. HUNTER. I would agree absolutely. The fact that we cannot target the use of the loan resources to those places that have the greatest need means that we are creating an inequity among our borrowers and the people at the end of the line. We are unable to give preferential treatment where the need is the greatest.

PHASE-OUT OF REA

Mrs. SMITH. If REA were to be phased out, as the administration has proposed, would not many REA borrowers be left without sources for loans?

Mr. HUNTER. I know that you folks in the Congress are faced with serious difficulties in so far as how to deal with the budget, and how to deal with the deficit. REA is an agency which includes a great deal of subsidy which is not needed. Therefore, we are faced with a choice either to recommend that REA be phased out or an adjustment be made in the overall lending program. As you have brought up, REA is constrained from making the selectivity that ought to be made in the services that this agency offers.

Mr. NAYLOR. Mrs. Smith, if I might.

Mrs. SMITH. Yes.

Mr. NAYLOR. I think increasingly we are seeing the private sector financial institutions develop more and new ways of providing financing into rural areas that historically they were not prepared or did not have the mechanisms to do. We have been approached in the last six months by a wide variety of regional and national financial entities interested in putting funds into the rural areas. Indeed, our community banks this year have more funds available than they have ever had and have money to loan to qualified borrowers throughout the country.

We are very concerned with the results of a recent review by the agency. There is a clear indication that the vast majority of the loans are not going to rural areas at a time when rural America really needs attention, but are going to essentially urban areas. Cities and suppliers to them should be able to raise funds in the normal marketplace.

Similarly, there is increasing demand for funds from cooperatives that have sufficient funds within their own operations to pay for many of the projects which are drawing funds away from other, more needy users. The inability to target funds to the really rural areas with the resources we have in the next few years is of significant concern to us. As we begin to phase down our activity and look to the Banks for Cooperatives and other primary lenders to assume some of this responsibility.

Mrs. SMITH. Thank you for that comment, Mr. Naylor. Would it take legislation to give you that kind of discretion?

Mr. NAYLOR. Legislative action will be required to give us the discretion necessary to target loan funds into the primarily rural areas over the next few budget years, while loan funds are available.

Mrs. **Smith**. How have rural electric and telephone cooperatives fared financially during these difficult years for rural America?

Mr. **Hunter**. Very well, Net margins, or profits, as a percent of gross revenues have increased for both electric and telephone borrowers. Electric distribution system net margins went from 5.5 percent of gross revenues to 8.2 percent from 1981 through 1984. Telephone borrowers also did well. Their net margins increased from 12.8 percent of gross revenues to 15.3 percent.

Since so many of our borrowers no longer serve a significantly rural population in terms of their total service, it's not surprising that their profit picture more closely parallels the economic upturn of our nation as a whole, rather than the difficult economic conditions of rural America.

Mrs. **Smith**. What effect would higher interest rates, as REA is proposing, have on residential rates to consumers?

Mr. **Hunter**. Very little, if any. Interest expense represents between 4 and 5 percent of a borrower's total operating expenses. Market interest rates, such as Treasury plus 1⅛ percent would mean an increase of about 65 cents more per month for the average residential electric consumer—and that's just for consumers of REA borrowers who decide to undertake a major new project. Since loan requests are down—particularly in rural areas—most consumers will not see any change in their bills because their rural co-op will not be borrowing money at the higher interest rate.

Mrs. **Smith**. Mr. Chairman, thank you very much. I have no more questions.

Mr. **Whitten**. Mr. Rogers?

Mr. **Rogers**. Thank you, Mr. Chairman. Welcome, gentlemen and ladies.

RURAL TELEPHONE PROGRAMS

Let me ask you about the rural telephone program. Why are you not requesting an appropriation for the capitalization of the rural telephone bank stocks?

Mr. **Hunter**. Mr. Rogers, the Rural Telephone Bank has the legal authority to leverage the capitalization that it has on a 20-to-1 basis. They have the ability also to borrow from the Treasury itself.

Both of these give it the capability to operate very well from the amount of capitalization that is in the telephone bank at the present time.

Mr. **Rogers**. Now you are requesting no funds for telephone loan guarantee commitments for '87; is that right?

Mr. **Hunter**. That is correct.

Mr. **Rogers**. Why is that?

Mr. **Hunter**. REA considers loan guarantees for the improvement and extension of telephone service for major loan requests from the larger telephone systems. In the past few years, the larger companies have been financing most of their construction programs with internally generated funds. The agency has been advised by a major telephone borrower that they will have sufficient internally generated funds for the next several years to finance new construction and will not be seeking REA funding.

Mr. ROGERS. If, as you propose, interest rates are raised to Treasury costs plus 1⅛ percent, what would be the impact on the user at the end of the line?

Mr. HUNTER. Very little. Again, my statement refers to the impact upon the average electric residential user, and that is the one that you can pick out and identify relatively well, and is one that is the basic recipient of the benefits from the REA in the past, and that computes out to be approximately 65 cents per month per user.

Mr. ROGERS. Has the REA done any studies on the impact of deregulation on telephone borrowers?

Mr. HUNTER. No, REA has not done any specific studies. However, when deregulation first began 4 or 5 years ago, our borrowers were extremely concerned; and I think rightfully so. The record shows that since that time our telephone borrowers have continued to do well financially. I think that is due to good management and partly due to falling interest rates during these last few years; the economic climate has stabilized, although nationally rural America is experiencing some difficulty.

The only available data we have is what has been the effect upon our borrowers.

Mr. ROGERS. Well, there is a broad range of regulatory issues which will affect co-op borrowers' financial strength, including revisiting of the access charge decision this year. Competition in some areas has lured away very large volume customers from the local company, and then this uniform system of accounts, the new accounting system being developed by the SEC, is costing these small co-ops between fifteen and two hundred thousand dollars for new software, which is a very heavy lick for a small co-op. And I am just wondering, does deregulation have any major impact, or did you take this into account in your budget submissions?

Mr. HUNTER. Yes, sir, we did. We particularly took into account what is actually happening to our borrowers. We have participated in appearances before, and submissions to FCC upon the various issues which have been considered by the FCC during the last four or five years.

We will continue to present our views to the FCC on issues which may have an adverse impact on our borrowers. We recognize that our borrowers have done a good job of putting together resources, which has helped them at the present time in presenting their concerns to FCC.

FINANCING FROM OTHER LENDERS

Mr. ROGERS. Now switching gears a little bit, can you tell us what steps the REA has taken to enable borrowers to have a better chance of obtaining financing from commercial lenders?

Mr. HUNTER. The Congress opened the door to provide that the Banks for Cooperatives would be available to anyone that is eligible to borrow from REA. That has been one of the steps.

REA has been in constant contact with various people in the private financing industry who come to us and explore the possibility of becoming a lender or increasing their lending activities with REA utilities.

LIEN ACCOMMODATIONS

Mr. **Rogers**. I understand there are some proposed regulations on lien accommodations. Can you tell us what those regulations provide for and where they stand?

Mr. **Hunter**. The lien accommodation proposal is now in the process of review and moving along very well. It is an approach which will make it possible for greater latitude upon the part of REA and also latitude upon the part of the borrowers. This has been worked out with a group representing the Rural Telephone Bank, which is pretty good representation of the industry, and with other people within the industry itself. We made quite a bit of progress along the line that the industry desired.

Mr. **Rogers**. I understand those regulations are now sort of bogged down in the Office of the General Counsel. Is that generally true?

Mr. **Hunter**. I don't believe they are. It takes time for clearances. The regulations have just recently been agreed upon, and I do not sense that they are being delayed unnecessarily.

Mr. **Rogers**. Well, what bank or what commercial lender is going to lend money on somebody for property that is first mortgaged to somebody else, you know? So I hope we can get something worked out there.

Mr. **Hunter**. You are precisely right. We did have to reconcile our considerations with the regulations. It does take a change in those regulations and we are working on those. The result will be that other lenders will be allowed to come into the picture.

Mr. **Rogers**. Various financial experts have cited investor unease about the telephone industry in general during these days of adjustment to deregulation. How would you assess the ability of rural telephone companies to find affordable financing in that type of an environment?

Mr. **Hunter**. I believe affordable financing is available. A private lender must get acquainted with the industry and understand how it works. The changes that we are making through lien accommodations will encourage that and allow them to see the possibilities for investment.

In addition the relatively good economic and fiscal position of the borrowers themselves, enhances the possibility of going to the private sector. The borrowers' financial position has improved very dramatically in the last five years.

PHASE-OUT OF REA

Mr. **Rogers**. Do you believe that a three-year phaseout will be enough time for the borrowers that can't afford private financing to build their financial strength?

Mr. **Hunter**. I think it will happen quite rapidly. REA has taken the lead in assisting borrowers to become financially sound.

Mr. **Rogers**. Well, Mr. Hunter, it's good to see you again.

Mr. **Hunter**. Thank you.

Mr. **Rogers**. Excellent aides and superiors and inferiors. Good to have you with us. [Laughter.]

Mr. **Rogers**. I've got to be careful with that. That's not a very diplomatic term. It's good to see all of you.

Mr. HUNTER. Thank you.

Mr. WHITTEN. Mr. Durbin.

Mr. DURBIN. Thanks, Mr. Chairman, Secretary Naylor, Administrator Hunter, friends, thank you for joining us today. I want to commend your agency for the response you have given my office over the past several months.

We have a special problem and you have been very receptive to meeting with us and discussing it, and I appreciate that very much. I am sure I speak not only for myself, but for all the people served directly and indirectly by REA in central and western Illinois.

I am concerned with the proposal that you bring before the subcommittee this morning, in that it requires some looking into the future and some projections as to what in the electrical area the power needs will be in rural America in years to come.

Not too many years ago, most of us guessed wrong on this. In fact, made some serious mistakes in judgment which are coming back to haunt us, particularly in my part of the world. When the decision was made to increase the capacity of some of our utilities in the area at great expense, that expense is now frightening and overwhelming.

LOAD GROWTH

Now I see that the speculation seems to be going along another line, and that is that there will not be any load growth in the rural areas of the country for years to come.

Is that the basic premise that you begin your decision-making process with?

Mr. HUNTER. Mr. Durbin, our decision-making process had to recognize that there is an excess of power in the country at the present time; that we have some very serious problems that must be dealt with at this time. To start additional building could very well create more problems. We felt our priority was dealing with the problems we already have, plus recognizing the fact that there is surplus power, pretty well distributed throughout the nation. This led us to believe that new construction really is not needed at this time.

Mr. DURBIN. How far do you look into the future? I mean we have to make decisions today we are prepared to live with perhaps for the next decade. When I look at some of the proposals that you have given to the subcommittee and the Administration's position, the selling off of $100 million in the revolving fund is a decision, once made, will be very difficult to undo, and it suggests that down the line these co-ops will not need assistance to the degree that they have in the past.

So you must be looking into the future, at least from what you said earlier, and suggesting for the next decade or more that we won't have load growth or increase in demand at the rural level in America.

Mr. HUNTER. Many things are happening to load growth. Conservation, load management, development of technology are making some difference that will have a continuing impact.

I think one of the big things that we have got to take into consideration is the vast difference in the clientele that we serve as we look at different parts of the nation. Your part of the nation is quite different from some other parts.

For instance, we asked for a report of all the distribution loans made in a particular state in the year 1985. When the loan is requested, the borrower gives information on the precise areas to be served and the type of services needed.

In this particular state, we had 12 borrowers who requested 12 loans. It amounted to $81.1 million of total borrowing. The characteristics of those project areas that were served were startling. We knew what we were looking for, but what we didn't know that it was as startling or different or unique as it turned out to be.

We looked at density in those areas. Densities across the nation vary a great deal. For this state—12 loans—the least density of any of those projects was 10 users per mile. Now that's pretty heavy and that was the lowest density. We didn't just look at a selective group of the loans that were requested but all loans and the heaviest density was 25 users per mile.

The point is that new loans are going to types of areas which are absolutely foreign to the REA program and its original purpose.

PROGRAM DELIVERY

Mr. **Durbin**. Mr. Hunter, I heard your similar response to Mrs. Smith earlier, but if I'm not mistaken, what you are suggesting is that because the profile of the borrowers has changed, that we should gear back the program in general, instead of coming in and saying let us be more specific in the type of people we want to help.

Now if in fact rural America, as we knew it 50 years ago, has changed dramatically—and I think we would all concede that point—there still exists across this country areas that have special needs. I think you would concede the fact that when you compare the utility companies serving rural America and those in the urban areas, there is a dramatic difference in terms of the general density and the like that make a difference in terms of the rates that are charged.

But to argue, on the one hand, that because we have not modernized our approach to REA to absorb the new circumstances of the marketplace is an argument against REA that's probably where I would disagree with you.

Mr. **Hunter**. Mr. Durbin, you make a point. I think that I must make a point to you that we have proposed, suggested, and recommended, that the program delivery be changed for at least the four or five years that I have been here. We have not been able to make necessary changes. So we are forced into a very unfortunate position. Can we justify the entire program or do we say that we cannot justify the program because we haven't been allowed to make changes that we felt were necessary.

I think we have to look at Gramm-Rudman which is a controversial concept to many. It creates some problems. But the Congress passed the bill and we are proposing funding levels that will allow the Gramm-Rudman goals to be met. I know the REA programs are not large compared to the entire federal government, but it is our responsibility to review the program with the deficit and other budget problems in mind.

Mr. Chairman, you made a point that there are bigger budget demands in other places, but I don't think that excuses REA. As administrator I must accept my responsibility to address our effort to deal with the budget deficit.

I tried to balance the importance of the REA program compared with the need to deal with the responsibility of Gramm-Rudman. Where does it balance out? The balance that I see in this program and the REA budget proposal, which allows a phase-out and a time for other sources of lending to be established, that allows for a cooperative to prepare itself to assume their responsibilities before phase-out. I see a need to support the proposed budget.

BORROWING ON OPEN MARKET

Mr. **Durbin**. Mr. Hunter, what history does REA have of rural co-ops borrowing on the open market?

Mr. **Hunter**. REA, distribution co-ops do borrow on the open market. They get 30 percent of their funds from the open market. They do it mainly from CFC. That is part of the history.

The Bank for Cooperatives asked Congress for the opportunity to be eligible to make loans to all REA borrowers, That is a second group, and they have experience with electric borrowers already.

Another open market area that has dealt with rural electric activities has been pollution control funding, bond issues, and other types of major sophisticated lending programs in which REA is deeply involved as a co-lender.

Mr. **Durbin**. And doesn't REA also serve a function as basically guaranteeing bond ratings as far as these co-ops are concerned?

Mr. **Hunter**. We have not guaranteed bond ratings. You suggest that REA needs to develop some knowledge about the future, and I would agree. I think one of the best ways to learn about the future is for another lender to be involved in a project with REA as a colender, then they have something of their own at risk, and having that risk, they will exercise judgment as to the feasibility of that project, because of the possibility of losing something.

I think the idea of private sector involvement goes to more than just money. I think it gets the enhanced capability and utilization of judgment from the other lender as well.

Mr. **Durbin**. I guess my concern, Mr. Hunter, is if you're going to put these co-ops into the marketplace, saying that the Federal Government is going to step away, at least to some extent from their traditional role, it strikes me that we should look at the co-ops borrowing power without some sort of REA backing and seeing how they would stand in this marketplace. There are several factors when you look at the co-ops that would suggest that it's going to be pretty expensive for them, if they can borrow at all. The fact that there are so very few customers per mile served by the rural co-ops, that 75 percent of the rural co-ops have higher rates than investor utilities, that investor-owned utilities have their tax advantages that they can use, depreciation and the like; and the fact that distribution co-ops have a very low equity level suggests that there are major differences between investor utilities and co-ops in their ability to borrow private money.

All of these things—I don't think you would disagree with—would at least argue for the position that those co-ops going into the marketplace are going to have a very difficult time of it and find it very expensive to borrow, as opposed to the existing federal structure.

Would you disagree?

SUBSIDIZED FUNDING

Mr. **Hunter**. I would make the point that the original purpose of the agency was to provide the availability of funds, not a subsidized level of funds. Today, we find ourselves with a program that requires subsidized funds, funds that cost less than the cost of money borrowed from Treasury. This proposal projects an increase in interest rates and also an involvement of the private sector, both of which can be part of the transition, the phase-in time needed to make these proposals work.

Mr. **Durbin**. This reminds me of the discussion we're having in the Transportation Committee about Amtrak and what is a subsidy and what isn't and the fact that we are subsidizing Amtrak to some $600 million at the federal level, and there are those who happen to believe that we subsidize every form of transportation in this country indirectly.

Isn't there an indirect subsidy which we are providing through our Tax Code to investor-owned utilities?

Mr. **Hunter**. Absolutely. Yes, sir.

Mr. **Durbin**. Then are we not penalizing the rural co-ops because they can't use these tax advantages, and now we're going to cut off what you term to be the basic lure of a subsidy that is in our program?

Mr. **Hunter**. One of the things that has been utilized very strongly by many private sector utilities is safe harbor leasing. This also was utilized very heavily by our REA borrowers. From this they were able to save billions of dollars. This has not been completely restricted to the private sector, to the investor-owned utilities. It has been used by the REA borrowers also.

Mr. **Durbin**. Has REA done any comparability studies on federal subsidies provided to investor-owned utilities and other utilities?

Mr. **Hunter**. We have utilized some studies provided by Congressional Research Service, and we utilized those because we felt that they were less prejudicial than those done by others.

Mr. **Durbin**. And do they find the conclusion that you reached, that in fact there is an equal subsidy to the public utility as the investor-owned utility?

Mr. **Hunter**. It's pretty difficult to compare, the old stories about oranges and apples. Their findings show that both investor-owned and REA borrowers do both receive considerable subsidies.

Mr. **Durbin**. I guess the level of that subsidy is really the debating point here.

Let me switch, and I want to ask maybe two more questions and wrap up here.

PLANT COMPLETION

Taking a look at my particular circumstance in Central and Western Illinois and the problem that we're having with the Clinton Nuclear Power Plant and the fact as we've discussed that it isn't an isolated example. In fact, there are other co-ops facing similar problems across the country. What kind of steps does REA plan on taking to assure that some of these plants can be completed and brought on line at a reasonable cost to rural customers?

Mr. HUNTER. I wish I had a real interesting, convincing, easy answer for you, Mr. Durbin. Like you say, we've talked about this before, and we know that it's not an easy task to accomplish.

We see the need for REA, representing the Federal Government, to work with the other lenders to look for the solutions that might make it possible for those borrowers to somehow survive. The answers aren't easy. There are unique situations with each of them. Each one has a different set of circumstances that we have to deal with.

I think it's important that in some cases, at least, there is going to have to be some give on the part of everybody involved in the financing package, and that's one of the proposals. We cannot assume——

Mr. DURBIN. Excuse me. Does "everyone" include the REA?

Mr. HUNTER. Yes, REA is working closely with the other lenders.

Mr. DURBIN. In terms of this give that you're talking about?

Mr. HUNTER. Yes.

RATE PER KILOWATTHOUR

Mr. DURBIN. I see. Have you done any kind of studies or do you have access to any studies that suggest what we might consider to be standard rate per kilowatthour across the country where you've gone beyond the point where it is a marketable rate per kilowatthour?

Mr. HUNTER. Experience itself is the main thing that we use. Some of the G&Ts are reaching the point where rates are beginning to bump what appears to be an impossible level.

Mr. DURBIN. What is that level?

Mr. HUNTER. I was just going to make the comment that it varies from place to place, with industry to industry, with service to service, with whether and what type of an industry may be carrying part of that load, whether or not it's a utilization for a residential user or whether it's a user who requires large quantities of electric power for irrigation purposes.

Mr. DURBIN. Can you give us a range on those?

Mr. HUNTER. Not really. I have no answer.

Mr. DURBIN. Is this a matter of speculation, or has there been some actual study done that says once your rate per kilowatthour reaches a certain level, the customers no longer are going to avail themselves of the service?

Mr. HUNTER. There have been a number of studies done, but none of them are very definitive because of the variety of situations that you deal with and the differing types of loads.

Mr. DURBIN. Thank you. Thank you, Mr. Chairman.

Mr. **Whitten**. Mr. Skeen.

Mr. **Skeen**. Thank you, Mr. Chairman, and I, too, want to welcome you all. It's always a refreshing group to work with, and you certainly get a workout up here on the Hill.

This is an issue that I think is one that probably has more emotional attachment to the Congress of the United States than just about any other, when you start talking about REA. I'm an REA user and have been since 1955. I'm probably one of the last persons to ever get an electric line run to a ranching operation. I'm also the last person in the Congress of the United States that ever got a telephone, thanks to REA. So I, too, have an emotional involvement in this issue as well.

But I think what's happening to us today—is that, it's very difficult for us in the United States, particularly in the Congress of the United States, to get close to a program, and we don't want to see it changed, nor do we want it altered, nor are we readily available to recognize change. So I want to commend you that at least you folks are taking a look at what has changed in REA, and there's been a dramatic change.

G&T COOPERATIVES

I know, for instance, that you state here that you've got 63 G&T cooperatives. That's generating and transmission cooperatives; is that not correct?

Mr. **Hunter**. That's right.

Mr. **Skeen**. As opposed to those who buy power; is that not correct?

Mr. **Hunter**. That is correct.

Mr. **Skeen**. We do a lot of that in New Mexico, and we're truly a rural type of community. And if anybody thinks that subsidized power these days is a whale of a bargain and that somebody's getting away with something, I want to tell you as a user, they are not, because what's happened to REA cooperatives, they've had to become competitors with the private sector, because in many cases they're buying power.

Right now, my fuel charges run right on a par with private utilities, and we using something like, in the wintertime, something like $900 a month electrical charges in our type operation. I don't want to belabor anybody with it, but that's up from about 20 years ago where we ran $200 to $300 a month. It is now one of the major expenditure items on a monthly and a yearly basis that we make in an agricultural operation that hasn't been all that profitable. So we watch it very closely.

But what I'm interested in is, what's happened now—and in your statement, you're saying—and one of the astonishing things is now that over two-thirds of the REA cooperatives now are classified as urban type generation and transmission units.

How stable are the G&T units that you have now, the 63 cooperatives that are involved? I'm a little concerned, because I know at one time they weren't charging enough. And now you've had to get into this business, and it has to become a business, and you've got to make a profit, or you don't stay.

Mr. **Hunter**. There is a great variety. There are some G&Ts that are very stable. We have some that are in desperate trouble.

Part of the problem concerns when they embarked upon the construction project, whether it was done recently and based on a projection of a need that really didn't develop. Sometimes it is based upon construction delays, then interest rates got higher and more burdensome than they anticipated it would.

So again, there is no real pattern. Most of the G&Ts are getting along relatively well. Also it has been difficult to get public service commissions to agree to a rate which is truly supportive of the G&T's needs.

Mr. **Skeen**. Well, Mr. Hunter, I'm finding that most of the rate structure changes are driven by the private sector, and then the REA cooperatives either have to follow them or find some other supplier. And I'm a little concerned about the G&T operators which are cooperatives.

One of the reasons that they got themselves in trouble, too, was the inability to raise rates.

Mr. **Hunter**. Right.

Mr. **Skeen**. Was this not true?

Mr. **Hunter**. Because of the public service commissions.

Mr. **Skeen**. Because of the public service commissions.

Mr. **Hunter**. And of the resistance—the public pressure upon them, upon their own management.

Mr. **Skeen**. So what you're saying is that one of the changes that is so hard for us to recognize is that it's no longer a Rural Electrical Administration; it's pretty much now urban. It's still part of the business. And with the networking that goes on in the power systems throughout the United States, particularly in the West, they are, without any doubt, brought into the private sector. They have to deal with the same profit-and-loss picture, and it has been a drastic change, and I think that it's time that we in Congress really understand that.

ELECTRIC LOANS BY DENSITY

I'm also interested in this recent study that you did. I don't know whether anybody has asked to have this included in the record. If not, I would like to ask unanimous consent that it be made part of the record. This is a study that I think REA has done on non-rural projects that receive over two-thirds of the funding. And if that's not an unreasonable request, Mr. Chairman, I'd like to ask unanimous consent that this study be made a part of the hearing record.

Mr. **Whitten**. Hearing no objections, that will be fine.

[The information follows:]

46a.

United States Department of Agriculture
Rural Electrification Administration
Office of the Administrator
Washington, D.C. 20250

March 14, 1986

SOME FACTS ABOUT THE RECIPIENTS OF REA'S 5% INTEREST LOANS

"The southern portion of the county, with proximity to Dallas-Fort Worth, is influenced by the metropolitan bedroom commuters." "New homes are being constructed in new and existing subdivisions located in several areas of the system."

--From Denton County Electric Cooperative, Inc. (Denton, Tex.) application for 5% loan from REA. $8.1 million loan approved, 1985.

"...the great majority of this new consumer growth is on the coastal side of Conway and over toward the beaches... Developers have presented plans to the Cooperative which would require service to several thousand new consumers in a short period of time." "The Myrtle Beach Golf and Yacht Club is expected to develop about 4,000 living units of various styles and sizes within the next four to six years."

--From Horry Electric Cooperative, Inc. (Conway, S.C.) application for 5% loan from REA. $8.3 million loan approved, 1985.

"...head west toward the Gulf, across Route 41 and you're in the "new" Florida, a maze of retirement subdivisions, crowded multilane roads, golf courses, commercial strips and shopping centers. This is where most of the 70,000 members added to Withlacoochee's system in the past 13 years live."

--From March, 1986 RE Magazine article about Withlacoochee Electric Cooperative, Inc. (Dade City, Fl.). Coop serves 100,000+ consumers outside Tampa.

"By the time this magazine reaches you, Lee County Electric Cooperative in North Fort Myers, Fla., will sign up its 100,000th consumer and in two years time, Clay Electric Cooperative of Keystone Heights, Fla., will reach the same plateau."

--From March, 1986 RE Magazine article.

"Only 12 percent of the (rural electric) consumers said they were farmers or ranchers while nearly one-third called themselves blue collar workers, and 26 percent said they were retired. Twenty-one percent were in executive, sales or white collar jobs and 11 percent were professionals."

--Results of NRECA survey of rural electric consumers published in December, 1985 RE Magazine.

United States
Department
of Agriculture

Rural
Electrification
Administration

Office
of the
Administrator

Washington,
D.C.
20250

March 14, 1986

NON-RURAL PROJECTS RECEIVE BULK OF REA'S 5% ELECTRIC LOANS

Four out of five subsidized loans from the Rural Electrification Administration have helped finance high and medium density projects over the last 10 years. A review of data provided by REA-financed rural electric distribution borrowers indicates that only about one-fifth of the $8.3 billion in 5% loans approved since 1976 have been used to extend service to new consumers in sparsely populated rural areas.

The REA was founded 51 years ago to provide financing that would extend electric service to consumers living in rural areas and in communities of 1500 population or less. Over the last 10 years, due mainly to urban sprawl and population shifts to the Sunbelt and Western United States, the vast majority of REA's subsidized loans have been financing new electric connections in housing developments, subdivisions, retirement communities and even vacation resorts.

For this study, rural projects are those that bring service to five or fewer new consumers per mile of electric distribution line. Medium density projects are those with 5.1 to 10 new consumers per mile, and high density projects bring service to 10.1 or more new consumers per mile.

Good times or bad in rural America have little to do with how much assistance it receives from new REA loans. During agriculture's prosperous 1976-80 period, REA loaned $4.5 billion to electric distribution coops and companies. Of that, 51% or $2.3 billion financed high density projects which averaged 15 new consumers per mile in 29 states. Medium density projects in 10 states accounted for another $1.1 billion worth of loans. Only about one-fourth of the loans, $1.1 billion, financed rural density projects in "breadbasket" states. (Map 1)

Rural projects received even fewer loans from 1981-85 when agricultural America faced its hardest period since the Depression. Only 17% of the $3.8 billion leant during those years went to rural density projects. High density projects averaging 18 new consumers per mile took $2.5 billion--more than two-thirds of the available loan funds. (Map 2)

In 1985 alone, only 24 loans worth $58.4 million went to rural density projects. Eighty percent of the $535 million in loan funds financed high density projects. (Graph 1)

The largest recipients of REA loans today are electric coops and companies serving prosperous areas of Florida, Texas, the Gulf Coast and Mid-Atlantic States, and other systems which adjoin rapidly expanding urban centers. These new projects mirror those of investor-owned and public utilities which operate without federally subsidized loans.

Map 1

REA 5% ELECTRIC DISTRIBUTION LOANS, 1976-80

High Density Projects ■

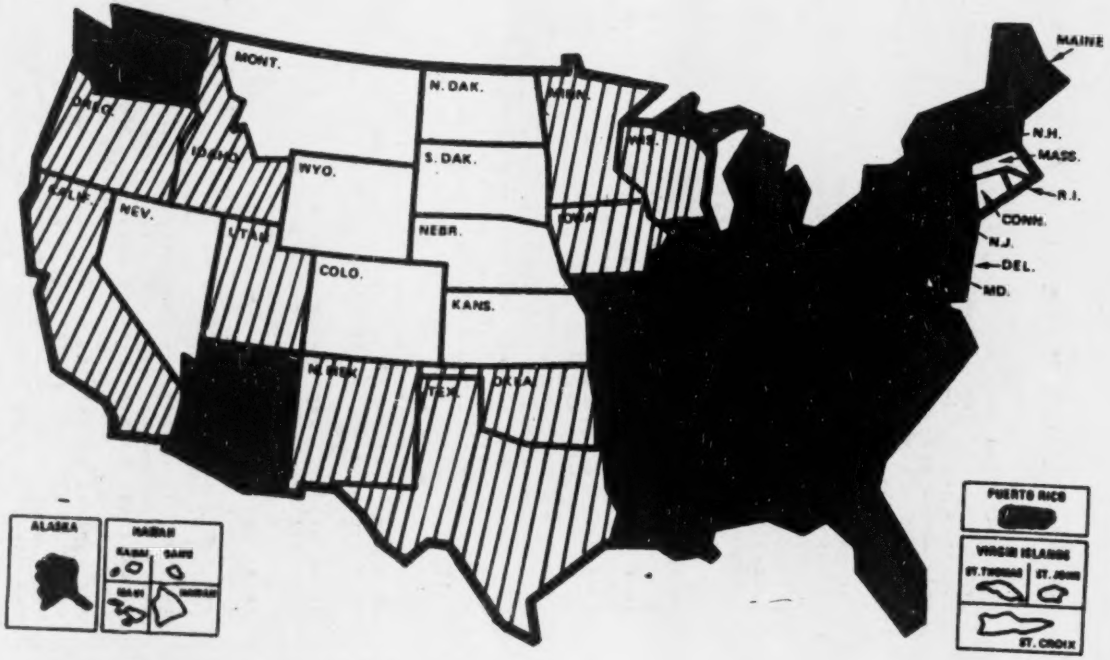
States..............29
Loan Totals........$2.3 billion
% of U.S. Totals....51%
Avg. Project Size...15 per mi.

Medium Density Projects ▨

States..............10
Loan Totals.........$1.1 billion
% of U.S. Totals....26%
Avg. Project Size...7.4 per mi.

Rural Density Projects ☐

States..............8
Loan Totals........$1.1 billion
% of U.S. Totals...26%
Avg. Project Size...3.8 per mi.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N.H.
MASS.
R.I.
CONN.
N.J.
DEL.
MD.
ALASKA
HAWAII
KAUAI
OAHU
MAUI
HAWAII
PUERTO RICO
VIRGIN ISLANDS
ST. THOMAS
ST. JOHN
ST. CROIX

No REA borrowers in Hawaii, Connecticut, Rhode Island, Massachusetts or Virgin Islands

Map 2

REA 5% ELECTRIC DISTRIBUTION LOANS, 1981-85

High Density Projects ■

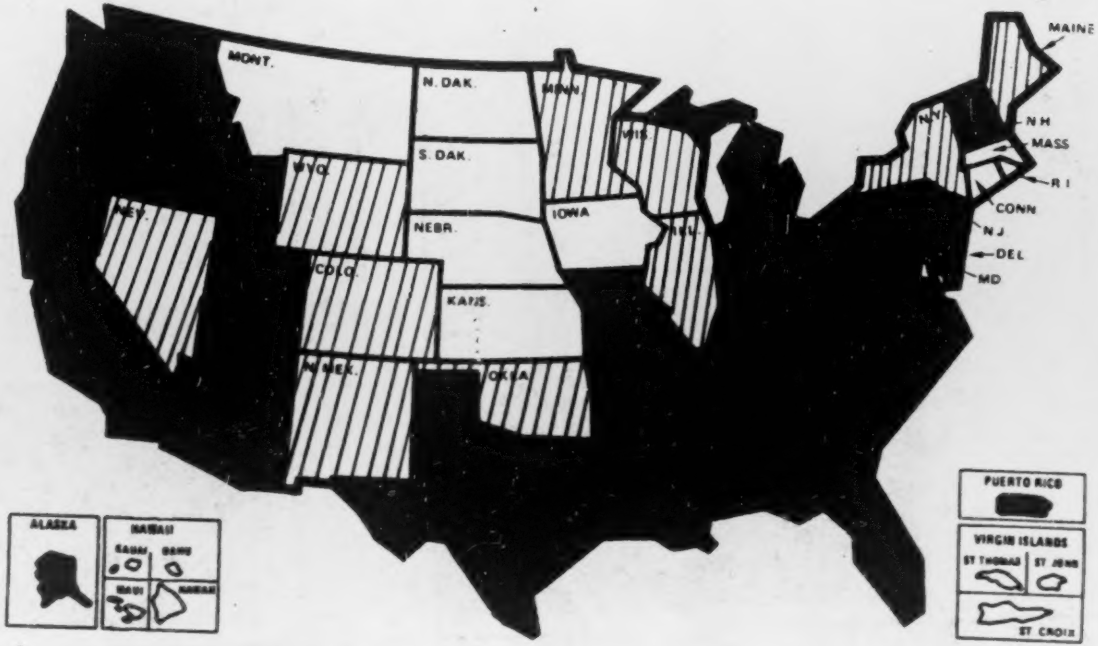
States..............31
Loan Totals.........$2.5 billion
% of U.S. Total.....67%
Avg. Project Size...18 per mi.

Medium Density Projects ▨

States..............10
Loan Totals.........$737 million
% of U.S. Total....19%
Avg. Project Size..7.4 per mi.

Rural Density Projects ☐

States..............6
Loan Totals.........$642 million
% of U.S. Total.....17%
Avg. Project Size...3.6 per mi.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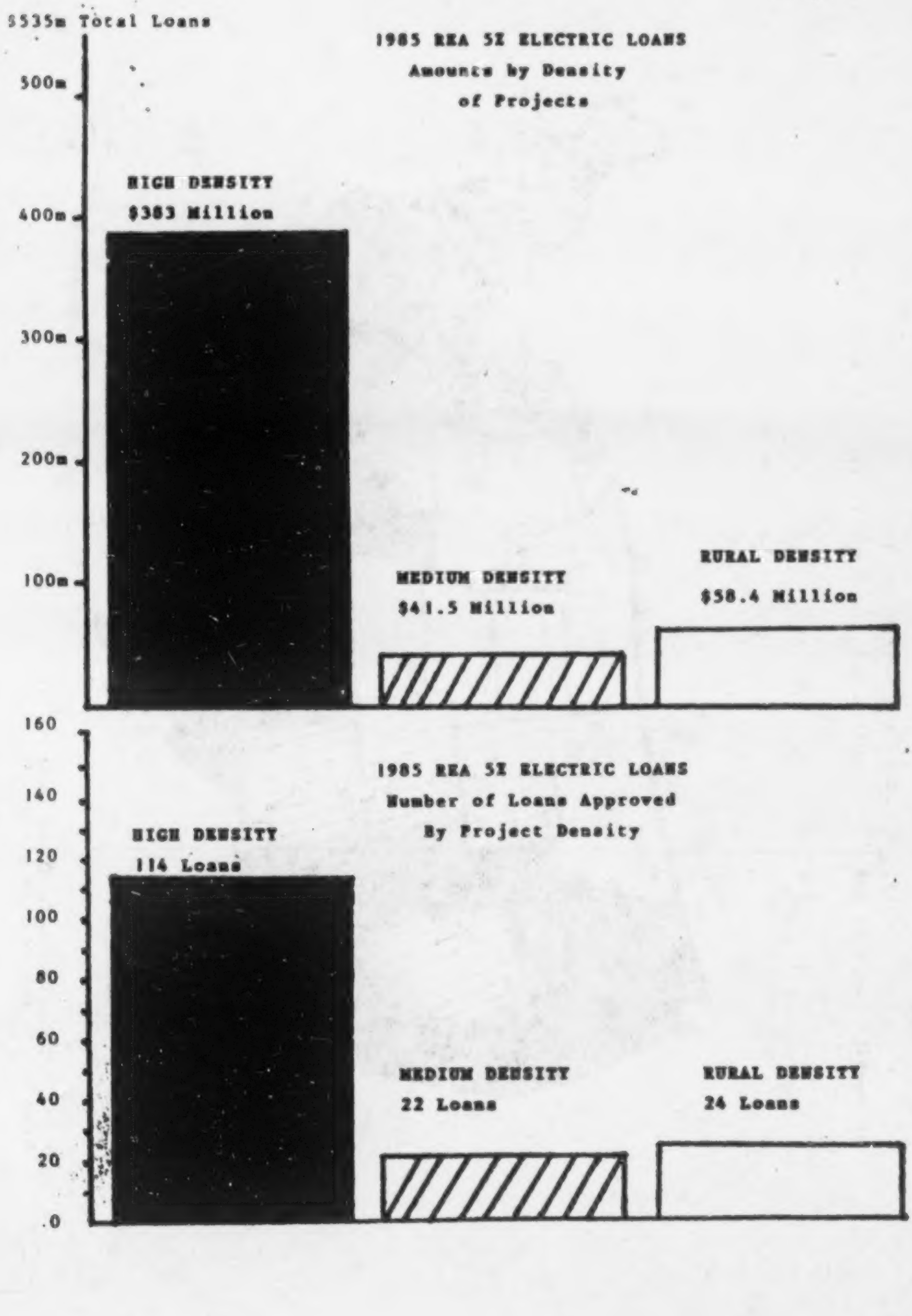
R I
CONN
N J
DEL
MD
ALASKA
HAWAII
KAUAI
OAHU
MAUI
HAWAII
PUERTO RICO
VIRGIN ISLANDS
ST THOMAS
ST JOHN
ST CROIX

No REA borrowers in Hawaii, Connecticut
Rhode Island, Massachusetts or Virgin Islands

Graph 1


$535m Total Loans
1985 REA 5% ELECTRIC LOANS
Amounts by Density
of Projects
500m
400m
300m
200m
100m
HIGH DENSITY
$383 Million
MEDIUM DENSITY
$41.5 Million
RURAL DENSITY
$58.4 Million
1985 REA 5% ELECTRIC LOANS
Number of Loans Approved
By Project Density
160
140
120
100
80
60
40
20
.0
HIGH DENSITY
114 Loans
MEDIUM DENSITY
22 Loans
RURAL DENSITY
24 Loans

5% INTEREST REA ELECTRIC DISTRIBUTION LOANS FOR THE PERIODS 1976-80 and 1981-85; AND, DESIGNATION OF PROJECTS AS RURAL, MEDIUM OR HIGH DENSITY

State	1976-80 Loan Totals (Millions)	Avg. Project Consumers Per Mile of Line	Density Factor (Rural, Medium or High)*	1981-85 Loan Totals (Millions)	Avg. Project Consumers Per Mile of Line	Density Factor (Rural, Medium or High)*
Alabama	$ 82.9	13.8	High	$ 47.9	16.5	High
Alaska	247.0	14.7	High	199.9	22.1	High
Arizona	24.6	11.6	High	31.1	17.5	High
Arkansas	162.9	10.6	High	91.6	11.8	High
California	12.9	6.2	Med.	10.9	10.4	High
Colorado	211.9	4.9	Rural	138.1	7.9	Med.
Delaware	8.6	14.0	High	7.0	15.4	High
Florida	134.7	14.8	High	149.1	18.1	High
Georgia	144.6	11.8	High	271.6	15.6	High
Idaho	35.3	6.6	Med.	25.8	12.3	High
Illinois	110.5	10.4	High	68.6	7.7	Med.
Indiana	74.7	13.1	High	47.8	12.0	High
Iowa	128.9	5.5	Med.	75.2	3.7	Rural
Kansas	160.5	3.2	Rural	74.7	4.2	Rural
Kentucky	150.4	15.9	High	94.3	21.7	High
Louisiana	126.6	16.9	High	176.2	17.2	High
Maine	5.7	12.9	High	4.0	8.6	Med.
Maryland	45.5	14.4	High	11.9	11.9	High
Michigan	55.6	12.6	High	33.7	12.7	High
Minnesota	211.7	8.8	Med.	112.2	12.3	Med.
Mississippi	78.6	14.7	High	84.8	13.8	High
Missouri	194.1	10.5	High	81.0	12.1	High
Montana	68.2	4.7	Rural	87.5	4.5	Rural
Nebraska	103.6	3.3	Rural	98.6	2.8	Rural
Nevada	12.0	4.2	Rural	22.0	5.4	Med.
N.H.	18.6	16.9	High	16.8	18.2	High
N.M.	54.4	7.8	Med.	52.6	7.5	Med.
N.J.	4.9	25.9	High	1.9	65.0	High
N.Y.	6.3	10.7	High	5.5	9.6	Med.
N.C.	116.0	17.8	High	113.0	17.3	High
N.D.	187.9	3.2	Rural	126.5	3.7	Rural

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* Rural.......5 or fewer new consumers per mile of line
Medium......5.1 to 10 new consumers per mile of line
High........10.1 or more new consumers per mile of line

State	1976-80 Loan Totals (Millions)	Avg. Project Consumers Per Mile of Line	Density Factor (Rural, Medium or High)*	1981-85 Loan Totals (Millions)	Avg. Project Consumers Per Mile of Line	Density Factor (Rural, Medium or High)*
Ohio	$ 87.9	14.0	High	$ 44.4	18.0	High
Oklahoma	170.7	9.2	Med.	245.2	9.5	Med.
Oregon	76.6	9.3	Med.	35.9	11.0	High
Pa.	41.7	14.6	High	39.3	15.7	High
S.C.	94.6	15.1	High	167.0	17.2	High
S.D.	119.5	3.1	Rural	75.9	2.9	Rural
Tenn.	64.9	19.2	High	43.6	17.4	High
Texas	355.4	9.1	Med.	564.3	10.5	High
Utah	13.9	5.2	Med.	11.8	21.8	High
Vermont	20.8	17.2	High	6.7	22.3	High
Virginia	107.0	12.9	High	42.3	16.1	High
Washington	53.2	12.2	High	25.0	13.0	High
West. Va.	1.3	15.8	High	1.2	20.4	High
Wisconsin	84.9	6.6	Med.	39.9	8.9	Med.
Wyoming	91.1	4.1	Rural	49.2	5.3	Med.
Puerto Rico	64.9	46.4	High	72.5	33.8	High
U.S.	$4,428.5	10.5 avg.		$3,791.2	12.6 avg.	

1976-80

High Density Projects

Number of States.......29
Loan Totals............$2,329.1 million
% of U.S. Loan Total...53%
Avg. Project Size......15 per mile

Medium Density Projects

Number of States.......10
Loan Totals............$1,144.7 million
% of U.S. Loan Total...26%
Avg. Project Size......7.4 per mile

Rural Density Projects

Number of States.......8
Loan Totals............$1,157.6 million
% of U.S. Loan Total...26%
Avg. Project Size......3.8 per mile

1981-85

High Density Projects

Number of States.......31
Loan Totals............$2,550.3 million
% of U.S. Loan Total...67%
Avg. Project Size......18 per mile

Medium Density Projects

Number of States.......10
Loan Totals............$ 737.3 million
% of U.S. Loan Total...19%
Avg. Project Size......7.4 per mile

Rural Density Projects

Number of States....... 6
Loan Totals............$ 641.7 million
% of U.S. Loan Total...17%
Avg. Project Size......3.6 per mile

Mr. **Hunter**. Mr. Skeen, we actually have about three different studies that are similar, but we wouldn't want to bore you with all the details.

Mr. **Skeen**. It's a very attractive addition to this part of the life around Capitol Hill, is there's more information than we could ever use, but there is some very pertinent data, and I think this is extremely pertinent to this particular case, and I think that all of the other questions that you've been asked have been very good, because what it means is this: that we are going through a transition in the way that REA is handling itself.

We still want that service provided, particularly in areas where you have the low density, and I'm one that comes from and am very appreciative of the difficulties that the administrators of these co-ops—and they are good, they're well managed, and they're good, solid cooperatives, and we've had great response from you, too, for expansion and so on.

But they're getting to be public—or they're getting to be power-providing entities on their own, and they have to get into the private sector and fight for that money. The only subsidy has been on the loans and on the interest, and I think that maybe it's time for us to talk about a little transition, and I don't think it's going to be one that's going to be abruptly done. It has to be done over a phase-in, and I gather from the sense of your testimony that that's what we're talking about, is a transitional change.

Thank you very much, and thank you, Mr. Chairman.

Mr. **Whitten**. Thank you very much.

Mr. Watkins.

Mr. **Watkins**. First off let me say, Secretary Naylor, you have my congratulations and condolences. You have taken on new responsibilities and I have a lot of faith that you will carry out those in good fashion and try to make sure we serve our farmers well.

Mr. **Naylor**. Perhaps in a little different capacity, before the conclusion of the confirmation hearings.

Mr. **Watkins**.

Welcome Mr. Hunter. I am always glad to see another Oklahoman.

After reading your testimony, I wonder if we have anything else in common. Your budget proposal is different from my own views.

I think all of us know what is happening in rural America, the deterioration that is taking place out there and the erosion of people. As I see it, the consumer that is left on the rural electric lines will be confronted with carrying out the expansion of the Rural Electric program.

Last year you testified that about 30 percent of capacity was being utilized by commercial or industrial use. Have you seen any change in that, one way or the other, any significant change?

INDUSTRIAL LOAD

Mr. **Hunter**. I do not think we are seeing any particular change. We are seeing some real stresses in some cases where a borrower has a considerable amount of industrial load. That industrial load gets under pressure because of what is happening in the economy. And that stress has caused them to reach a ceiling that they can pay on rates. So that results in a difficult situation for the REA borrowers.

But as far as a trend, I do not pick one up.

Mr. WATKINS. Are you making an effort or calculated thrust, to improve the commercial or industrial use on Rural Electric lines? Do we have the capacity to do it?

Mr. HUNTER. We tend to strongly encourage our borrowers to pursue the types of economics that are in the best interest of that borrower. It varies from place to place so much and we believe in leaving the management to them. We do not want to distract them. We do not want to keep them from pursuing the things they need to pursue.

However, they are very competent. I think the record earnings that they have produced and the increased financial position that they have achieved in the last few years would indicate that as an industry they have the ability to make money and to work that money into their organizational structure, and at the same time, to serve the people.

RURAL DEVELOPMENT INITIATIVES

Mr. WATKINS. I am glad to hear that. I can only assume, then, that you are willing to work with them on loans and Rural Development Initiative Loans through your program?

Mr. HUNTER. We will have to look at loan applications and loan activity, and approve loans based upon what the Act authorizes. But in the same breath, to the degree that they feel they need to pursue other activities and can provide the organizational structure, we do not discourage them.

Mr. WATKINS. Could you tell me what you have going under Section 5 of your Act, that encourages the Rural Development Initiatives, what initiatives you've taken this past year?

Mr. HUNTER. One of the things that applies to that—I believe you were here when we were discussing the lien accommodations for telephone borrowers. These accommodations will enhance the ability of our telephone borrowers—of our borrowers in general—to go to the private sector, get financing, get involved in other types of activity, get involved in things that are not that precisely part of the REA Act.

I think this is going to increase their involvement in other activities.

Mr. WATKINS. Could you provide, for the record, what kind of Rural Development Initiatives, loans, that you have made under Section 5 last year?

Mr. HUNTER. I would have to provide that for the record. I do not have them in hand.

Mr. WATKINS. Also, provide a history of this particular program for the last ten years.

[The information follows:]

REA has not made section 5 loans since 1970. The basic purposes of the financing was to enable eligible borrower to help their consumers make full use of electricity. The funds were reloaned to consumers to finance the wiring of premises and the acquisition and installation of electrical and plumbing appliances and equipment. The funds were not authorized for use on financing wiring, plumbing or electrical appliances or equipment for commercial or industrial enterprises and therefore would not fall into the category of Rural Development Initiatives.

Mr. WATKINS. What I find in rural America today is basically foreclosures and a loss of customers that is putting our cooperatives under greater strain. And I think there may be a drop in commercial usage. I think a gallant effort should be made to increase the big users that would allow us to continue reasonable rates for the family consumer.

We have got that opportunity. We have that responsibility. That is what the law says. I want to encourage REA to enhance the awareness of this provision as we work through the current conditions in rural America.

SURPLUS GENERATING CAPACITY

Let me ask a question here. You stated, in your testimony, the REA borrowers have surplus generating capacity. And that is true, I know, in some of the areas in my part of the country and, in fact, in some of the lowest per capita income areas and highest unemployed areas, as well.

Would you encourage adopting a lower rate for new industry, or something similar that might encourage industry to locate in rural areas. Would you be willing to go along with that and encourage that?

Mr. HUNTER. Mr. Watkins, you know when I was in the legislature I worked in industrial development quite a little bit at that time and you and I worked together occasionally on those types of activities.

And I have a strong feeling that sometimes we have to be awfully careful that we do not put our existing industries at a disadvantage when we are trying to pursue, in a very legitimate way, industrial development. I think we have to remember that anytime you provide a preferential rate, that you are putting somebody else at a disadvantage. Somebody else has to pick up the difference in the cost because the expenses are there.

Mr. WATKINS. If you do not have the industry in rural areas, you are not putting any one to a disadvantage. But, if you had extra generating capacity and you have a lower wholesale rate, it appears to me this would over a period of time build economic opportunities for our rural citizens.

I have people driving over 200 miles to reach their jobs. Some of these people were in the farming business as early as the year 1986. They are driving as far as Dallas, Texas. What I am trying to do is figure out a way that I can help them find more adequate employment, closer to home. And I usually, with tongue in cheek, say so that they can provide a surplus of food for the consumers across America because, in many cases, that is what we are doing.

But I would just like to encourage you to not overlook what tools you have to assist new industry in rural areas. I think we have a capacity, Mr. Hunter—Mr. Secretary—that could be utilized by your major customers, by the Co-ops. That could assist in trying to make some of the economic rural depressed areas of this nation a little more of an opportunity to build industry.

I would just ask you to reflect with me. We need to utilize what tools we have because these areas do not have Fortune 500 companies. They do not have major industries. They do not have a private sector capacity. They do not have a means to achieve the end that they would like to have.

They are good people with a strong work ethic. They have got the capacity to give a full day's work for a reasonable day's pay and I think it would behoove us to do that so our people can live on acreage, on rural electric lands, and raise their children.

Our urban cousins on the utility lines get tax benefits. And they have industrial customers benefiting from such items. I know they are set up a little differently, but we should encourage our co-ops to make these loans with regard to rural development activities.

I would be very interested to receive a copy of those things that have been done and initiated during the past year.

Mr. HUNTER. Mr. Watkins, we will also submit some information which I think you will be interested in; the particular types of unique structuring of rates that some of our co-ops themselves use in order to encourage their utilization.

[The information follows:]

Many borrowers have developed and are continuing to develop rates which encourage efficient utilization of capacity and facilities. Such rates promote efficiency and spread costs more broadly, thus being beneficial to individual and commercial users. Among the techniques are special off-peak rates designed to fill load valleys without adding to peaks. It is sometimes possible to charge off-peak rates at half the regular retail price. Many systems combine this kind of rate with dual-fuel furnaces which, by radio control, can switch furnaces from electric to other fuels during temporary peak emergencies. Others may offer special rates for interruptible—usually by radio signal—service to industrial loads where there is a back-up generation system or to residential consumers for temporary interruption of water heating and air-conditioning. These, and other variations from regular rate plans, are designed to encourage efficient utilization of capacity to the benefit of present and potential industrial and residential users.

Mr. WATKINS. You have presented us with a glorious picture of how well everything is running in rural electric cooperatives across the country. If things are going so well, perhaps it's time to take a look at other activities where REA may become involved.

RURAL DEVELOPMENT

As you may recall, last year we discussed REA's involvement with rural development loans under Section 5. At that time, with main street rural America closing-up you expressed that REA did not plan any new initiatives in rural development. Since last year, more of main street America has closed, foreclosures have increased and rural Americans are unemployed. Do you still maintain that REA should not stress new or use existing rural development initiatives?

Mr. HUNTER. Rural development is a growing area of concern in America's heartland and one that the rural utility industry has expressed interest in. A recent survey by the National Rural Electric Cooperative Association (NRECA) indicates wide support for a strong rural development effort on the part of rural electric cooperatives.

There's no doubt that REA's lending programs have, over the years, assisted rural America in building necessary infrastructure to attract development. In the last 10 years, however, the bulk of our lending has gone not to America's heartland, but to high and medium density projects in fast-growing Sunbelt states and around metropolitan areas. The report which we submitted for the record on this issue graphically reveals that serious inequities in REA's lending patterns have diverted billions of dollars away from rural America where it could have helped rural development, to prosperous utilities serving high density areas of the country.

In spite of this phenomenon, REA has undertaken efforts to assist rural development. For instance, REA is now working to put in place a lien accommodation policy for our telephone borrowers which will allow them to get financing for telecommunications projects outside the scope of the REA Act. This mechanism, hopefully, will result in many telephone cooperatives and systems entering into projects that will result in new jobs and opportunities for rural communities. Lien accommodation policies are in place for our electric borrowers.

Mr. WATKINS. Your figures last year indicate that commercial and industrial units account for 30 percent of the load used. What affect will the defection of rural business and industry have on rates if an active rural development program is not pursued?

Mr. HUNTER. The effect of any loss of rural commercial and industrial business cannot be measured on a general basis because individual borrower situations vary so widely. Borrowers themselves are best situated to assess the needs for rural business development in their own areas and the local effort needed. Eighty-two percent of the borrowers responded to REA's 1985 survey on their voluntary initiatives toward community development. The total of new jobs reported was 77,659 of which 47,066 were a direct result of the development and 30,593 jobs were created indirectly. Preliminary analysis of the borrowers' 1985 operations indicated that the commercial and industrial component of load remains to be approximately 30 percent of total load served by the borrowers.

Mr. WATKINS. As I perceive it, a rural development program can at the very least hold the 30 percent load we have got. What is REA doing to attract a greater industrial load?

Mr. HUNTER. The involvement of REA as an agency is almost entirely funneled through its borrowers. The industrial load in 1983 was 30.1 percent and in 1984 has risen slightly to 30.3 percent.

Mr. WATKINS. Have you considered conducting a pilot program or rural development under the existing authorization in Section 5?

Mr. HUNTER. No, we have not been considering a pilot project under Section 5 authorization. Programs under this section have been dormant since 1970. Furthermore, this section does not authorize loans to assist commercial and industrial users, but rather is intended to provide assistance to individuals seeking to make improvements to their residences to better utilize electric service.

Mr. WATKINS. Would you be willing to try a pilot program in rural development?

Mr. HUNTER. A pilot program would probably require legislation.

Mr. WATKINS. Have you polled your borrowers to find out their interest in such a program? Has there been an interest expressed by your borrowers?

Mr. HUNTER. No, we have not polled our borrowers. However, we are aware, through the NRECA survey, of support for a rural development effort.

Mr. WATKINS. With consideration to current conditions in rural America and given that the farm picture is not expected to improve for a few more years under even the department's synopsis, do you see a need for rural development activities?

Mr. HUNTER. I see opportunities for rural development activities, and I think that many rural electric cooperatives have the ability to undertake such activities. However, the role of the Federal government should be limited, particularly in light of the current budget deficit.

Mr. WATKINS. Conceivably could REA do that job?

Mr. HUNTER. Yes, Mr. Watkins, if the Congress passes that responsibility to REA. Frankly, the majority of our borrowers are likely to be one of the most profitable businesses in their communities. While farmers, implement dealers and other main street businessmen have been losing money, and while many small town banks have suffered serious loan losses, our borrowers have seen their net margins increase over the last five years. Distribution electric cooperatives have seen their profits rise from 5 percent of gross revenues to 8 percent since 1981 and telephone borrowers have seen their profits increase from around 8 percent to 15 percent. These factors make it abundantly clear that REA borrowers have the ability to undertake private initiatives to strengthen their communities and service areas. Development programs occur routinely in urban areas and investor owned utilities are often in the forefront of such efforts. We believe rural electric and telephone cooperatives could undertake similar efforts in their communities.

Mr. WATKINS. Since we discussed this topic last, has REA worked to develop a program of rural development?

Mr. HUNTER. No, REA has not planned a program of rural development.

Mr. WATKINS. Do you have plans for development of a program?

Mr. HUNTER. Mr. Watkins, we do not have plans for new initiatives.

Mr. WATKINS. Has the industrial load percentage dropped during last year?

Mr. HUNTER. No, in 1984 it remained at slightly above 30 percent. As I stated previously, it rose just .2 percent.

Mr. WATKINS. You state in your testimony that REA borrowers have surplus generating capacity and project only modest growth in electric demand. I would contend the case would change if a rural development program was in place and actively pursued. Am I correct in assuming that an active development program would absorb the surplus and increase demand? Wouldn't that be your projection?

Mr. HUNTER. REA borrowers' sales are growing at approximately the same rate as the total electric utility industry. In most cases the unused capacity is in generating units for which planning was developed and construction began several years ago when historical and anticipated industry growth rates were consistently 2 and 3 times the present growth. REA encourages borrowers in developing marketing programs to make best use of available capacity without unduly accelerating the need for new, high-cost generation construction. These programs have many features: attraction of business and industry which typically provide higher load factors, new rates to encourage off-peak sales, dual-fuel heating systems and other methods suited to local circumstances. This orderly approach to efficient use of the capacity is, we believe, the best approach for the future of the borrowers and their communities.

Mr. WATKINS. You talk about REA borrowers being in the best financial position they have ever been, but what about its customers? Many are struggling to pay the bills now, what happens when your budget is implemented? I contend that an active rural development program is needed and sould be pursued by REA through its borrowers if we are to do justice to those we serve.

Mr. HUNTER. In response to your concern about passing costs on to the consumer of REA electric cooperatives, the proposed increase in interest for REA loans would make only miniscule differences in the utility bills for consumers. The average rural electric consumer's monthly bill would go up only 65 cents if his cooperative's next loan was made at Treasury plus 1⅛ percent rather than 5 percent. This increase would only affect consumers if their cooperative obtains a new loan at the higher interest rate. Many cooperatives could easily absorb increased interest costs without significantly lowering their net margins.

REA BUDGET

Mr. WATKINS. Back to the subject of your proposed budget. I don't believe your budget is as rosy as it appears. I think we need rural development activities administered by REA, but we also need a good budget that will not allow costs for rural consumers to skyrocket. Have you surveyed the borrowers you serve to see how they feel about REA's proposed budget?

Mr. HUNTER. No, we have not surveyed the borrowers concerning REA's proposed budget.

Mr. WATKINS. Wouldn't the proposed user fees be passed on to the consumers of rural electricity?

Mr. HUNTER. The proposed user fee is on new loans only. The borrowers have very healthy net margins and it may be possible for them to absorb the user fees without any significant increase in the cost of electricity to the rural consumer.

Mr. WATKINS. Don't urban utilities receive benefits, tax benefits or other subsidies of one kind or another? Are they being proposed to be cut?

Mr. HUNTER. Investor-owned utilities do receive tax benefits. However, could there be a better tax benefit than to be exempt from federal taxes as REA borrowers are; to be free from state regulation as a number of REA borrowers are; and, to be eligible for loans at a rate significantly below what even the best-managed and profitable private utility could qualify for? If REA borrowers feel they are at a competitive disadvantage to investor-owned utilities due to tax treatment, REA would welcome legislation to place them under the tax code of their IOU competitors.

Mr. WATKINS. Your attitude toward rural electric customers makes me feel like we are second class citizens. We were once regarded in that manner. I hope that you are not asking us to return to that era by saying that urban America is different than rural America. Are you saying that rural America should be treated differently?

Mr. **Hunter**. REA is certainly not interested in making rural electric customers feel like second-class citizens. We believe the time has come that rural utilities be treated just like their urban neighbors, particularly those REA borrowers who are now serving areas that mirror the service areas of the neighboring investor-owned or public utility.

Mr. **Watkins**. I have areas in my district that do not have electricity. Your proposed budget would never allow them the opportunity to get a sub-line extended to their house from a main-line. The cost would not permit that to happen. Many can't afford it as it is today. Mr. Chairman, I contend that this budget would gut rural electricity and in turn gut rural America by forcing more people to ultimately move off the land.

Mr. **Hunter**. Certainly, there may be a few pockets of rural America left unserved and it is in areas such as these that REA is intended to serve. However, as we have stated earlier, the vast majority of REA 5% loans are not targeted to these pockets of need, but are instead flowing unchecked to flourishing areas of growth and prosperity such as Myrtle Beach Golf and Yacht Club in South Carolina, Sanibel Island off the coast of Florida, Hilton Head resort in South Carolina, Vail and Aspen ski resorts in Colorado, and to middle and upper income suburbs of Dallas, Fort Worth, Houston, Atlanta, Baton Rouge, Minneapolis-St. Paul, Tampa and Fort Myers, Florida, and many others.

Mr. **Watkins**. Thank you, Mr. Chairman.

Mr. **Whitten**. Thank you very much.

And again, I realize that you are not responsible for the overall budget but we must look at the picture as a whole and see the relationship in other places. And it has become more and more apparent that the difference between military spending and defense gets wider and wider.

Mr. Traxler was unable to be here today but he has some questions he would like answered for the record.

Thank you very much for your testimony.

DEMAND FOR REA LOANS

Mr. **Traxler**. Mr. Hunter, you claim that demand for guaranteed loans is down, so you can afford to drop the appropriation. Isn't it true that some of the drop off in demand is due to problems in rural areas because farm income is down?

Response. Data available to us does not provide information to analyze the relationship of farm income to rural energy sales. Average usage per farm and residential consumer has remained relatively constant since 1977 at about 900 kWh per month, a higher average level than for the other sectors of the industry. Total growth in kWh sales continues at about the same level as for the total electric utility industry, 2-3 percent per year.

Mr. **Traxler**. Some borrowers complain that there are more difficulties in applying for loans than previously. What information are you demanding in your applications now that was not demanded five years ago?

Response. We are asking no new information for electric loan applications, except for minor "coding" in electric construction workplans. We do expect the borrower to prepare the application with minimal direct assistance by REA field personnel as compared to earlier years. In 1984, we issued all borrowers a manual with complete instructions on loan application preparation. On telephone loan applications, the only additional information of a significant nature being requested that was not required 5 years ago is the Borrower's Environmental Report.

Mr. TRAXLER. Some borrowers complain that REA is not receptive to loan applications. The borrower has to be very persistent to get you to consider an application. Acknowledgement of receipt of loan applications is also very tardy. Isn't it likely that some demand for loans has dropped off because you give the impression that you don't want to do business?

Response. During the fiscal year 1985, REA headquarters averaged 79 days each on loans approved to electric borrowers and 240 days each on loans to telephone borrowers. This is an improvement over fiscal year 1983, when REA averaged 207 and 401 days for approving electric and telephone loans respectively. The loan process has been accelerated, in part, due to the decrease in numbers and amounts of loan applications.

Mr. TRAXLER. Please provide a list of all requests for funds currently submitted to the agency.

Response. I will supply the information for the record.

[The information follows:]

Electric Loan Applications on Hand
as of March 25, 1986

Borrower	Insured Loans	Guarantees
Alabama 33	$ 1,196,000	
Alabama 46	642,000	
Arkansas 8	23,550,000	34,609,000
Arkansas 13	1,896,000	
Arizona 22	7,029,000	
Colorado 46		103,640,000
Georgia 22	2,758,000	
Georgia 34	4,428,000	
Georgia 51	5,186,000	
Georgia 65	963,000	
Illinois 12	2,900,000	
Indiana 99	1,285,000	
Iowa 32	1,665,000	
Iowa 36	1,777,000	
Kansas 53		24,473,000
Kentucky 18	1,414,000	
Kentucky 26	2,800,000	
Kentucky 33	2,926,000	
Kentucky 37	4,670,000	
Kentucky 54	3,088,000	
Kentucky 55	2,117,000	
Louisiana 19	3,517,000	
Mississippi 53	6,596,000	13,273,000
Montana 32	2,667,000	999,000
New Hampshire 4	12,209,000	
North Dakota 22	2,277,000	
Ohio 94	818,000	
Pennsylvania 20	3,203,000	
South Dakota 39	505,000	
Texas 88	3,226,000	
Texas 95	5,436,000	
Texas 119	2,790,000	
Texas 158		28,080,000
Vermont 8	1,012,000	
Virginia 37	1,750,000	
Wisconsin 57	2,464,000	
Total	$120,760,000	$205,074,000

Telephone Loan Applications on Hand
as of March 25, 1986

Borrower	Application Amount
Alabama 504	$3,600,000
Alabama 535	3,000,000
Alaska 514	3,500,000
Alaska 521	700,581
Alaska 525	1,000,000
Arizona 510	1,311,000
Arkansas 514	797,000
Arkansas 520	3,000,000
Arkansas 530	772,000
Arkansas 533	1,000,000
Arkansas 546	5,700,000
California 535	657,000
Georgia 513	5,000,000
Indiana 506	2,000,000
Indiana 530	3,000,000
Indiana 566	2,000,000
Indiana 567	1,000,000
Iowa 520	1,500,000
Iowa 535	475,000
Iowa 536	575,000
Iowa 571	538,500
Iowa 584	550,000
Iowa 597	290,000
Iowa 599	380,000
Iowa 610	400,000
Iowa 616	850,000
Iowa 616	2,108,000
Iowa 619	650,000
Iowa 620	550,000
Iowa 623	400,000
Iowa 636	380,000
Kansas 531	8,598,000
Kansas 551	2,709,840
Kansas 583	3,000,000
Kentucky 515	3,200,000
Louisiana 515	4,196,000
Louisiana 525	730,000
Maine 505	1,000,000
Michigan 523	4,391,600
Michigan 53	20,000,000
Michigan 533	10,000,000
Michigan 567	1,230,000

Telephone Loan Applications on Hand - Continued

Borrower	Application Amount
Ohio 504	$1,000,000
Ohio 515	1,000,000
Ohio 522	500,000
Ohio 530	1,600,000
Oklahoma 530	2,000,000
Oklahoma 532	1,442,000
Oklahoma 550	1,300,000
Oregon 520	3,180,000
Oregon 537	450,000
Oregon 542	7,000,000
Oregon 549	1,576,600
South Dakota 524	1,500,000
South Dakota 532	48,000
South Dakota 533	3,000,000
South Dakota 535	2,000,000
South Dakota 535	4,062,000
Tennessee 503	1,500,000
Tennessee 528	3,000,000
Tennessee 530	12,850,000
Tennessee 544	13,500,000
Tennessee 547	8,500,000
Texas 517	1,317,000
Texas 549	4,000,000
Texas 551	1,724,000
Texas 557	2,600,000
Texas 562	8,000,000
Texas 572	6,750,000
Texas 575	10,000,000
Texas 576	1,565,000
Texas 640	7,000,000
Texas 654	9,500,700
Utah 511	1,583,000
Utah 511	1,463,000
Washington 527	459,900
Washington 534	742,350
West Virginia 513	1,100,000
Wisconsin 519	1,000,000
Wisconsin 577	105,000
Wisconsin 591	120,000
Wisconsin 595	1,874,000
Micronesia 501	1,500,000
Micronesia 501	8,150,000
Total	378,184,021

Telephone Loan Applications on Hand - Continued

Borrower	Application Amount
Minnesota 540	$2,782,000
Minnesota 542	5,955,000
Minnesota 555	2,101,000
Minnesota 563	4,217,000
Minnesota 565	2,250,000
Minnesota 573	1,100,000
Minnesota 583	2,736,000
Minnesota 594	500,000
Minnesota 621	3,085,950
Minnesota 621	2,250,000
Minnesota 623	1,702,000
Mississippi 510	100,000
Mississippi 516	2,000,000
Mississippi 521	1,500,000
Mississippi 530	3,500,000
Mississippi 531	1,000,000
Mississippi 533	3,000,000
Missouri 545	4,500,000
Missouri 558	1,600,000
Montana 516	6,250,000
Nebraska 520	6,000,000
Nebraska 538	3,500,000
Nebraska 541	2,800,000
Nebraska 555	1,000,000
Nebraska 579	1,700,000
Nebraska 580	630,000
Nevada 501	20,000,000
New Hampshire 509	500,000
New Mexico 502	1,000,000
New Mexico 504	2,000,000
New Mexico 517	2,000,000
New York 527	3,000,000
New York 529	800,000
New York 536	1,750,000
New York 540	1,500,000
New York 541	1,228,000
North Carolina 508	2,500,000
North Carolina 509	4,545,000
North Carolina 510	9,000,000
North Carolina 520	4,000,000
North Carolina 521	800,000
North Dakota 526	1,500,000
North Dakota 527	6,000,000

Mr. TRAXLER. You claim that no loans are needed for new generation because of your perception of excess electric capacity. First, please tell us your exact basis for believing that there is excess capacity, and your projections for how long this capacity will remain available. Private experts claim that we face potentially dangerous power supply shortages during the next decade.

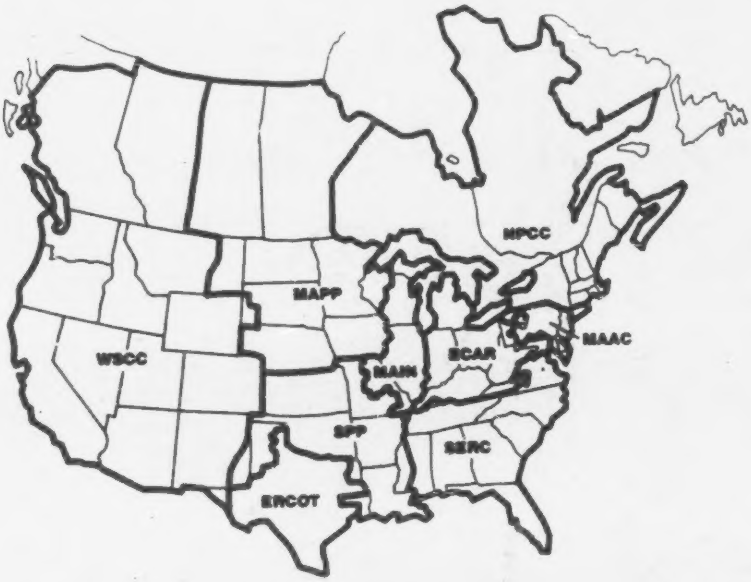
Response. In making statements regarding the adequacy of existing generating resources in the United States, REA has relied considerably on data published by recognized authoritative bodies such as the North American Electric Reliability Council (NERC). NERC is the electric industry's organization (investor-owned, Federal, rural electric cooperatives, and state/municipals) charged with the responsibility of promoting reliable electric service in the United States and Canada.

It is our judgment that the relatively high costs associated with the construction of new power plants, coupled with relatively new but meaningful efforts to manage electric loads, will continue to create a climate that will permit existing generation capacity, together with plants now under construction, to reliably serve the electric needs of the United States well into the 1990's. The demonstrated ability of the various operating pools to effect power transfers within operating areas and with adjacent operating areas to take advantage of natural diversities will also help delay the need for new generation.

A map illustrating the geographic areas of the United States and Canada served by the nine major NERC reliability organizations and NERC data relating to the current status of Electric Resources and Peak Demands for the various operating sectors in the United States will be provided for the record.

[The information follows:]

North American Electric Reliability Council



ECAR
East Central Area Reliability Coordination Agreement

ERCOT
Electric Reliability Council of Texas

MAAC
Mid-Atlantic Area Council

MAIN
Mid-America Interpool Network

MAPP
Mid-continent Area Power Pool

NPCC
Northeast Power Coordinating Council

SERC
Southeastern Electric Reliability Council

SPP
Southwest Power Pool

WSCC
Western Systems Coordinating Council

AFFILIATE

ASCC
Alaska Systems Coordinating Council

The North American Electric Reliability Council (NERC) was formed by the electric utility industry in 1968 to promote the RELIABILITY of bulk power supply in the electric utility systems of North America. NERC consists of nine Regional Reliability Councils and one affiliate encompassing virtually all of the power systems in the United States and Canada.

RELIABILITY, in a bulk power electric system, is the degree to which the performance of the elements of that system results in power being delivered to consumers within accepted standards and in the amount desired. The degree of reliability may be measured by the frequency, duration, and magnitude of adverse effects on consumer service.

Bulk power electric system reliability can be addressed by considering two basic and functional aspects of the bulk power system—adequacy and security.

ADEQUACY is the ability of the bulk power electric system to supply the aggregate electrical power and energy requirements of the consumers at all times, taking into account scheduled and unscheduled outages of system components.

SECURITY is the ability of the bulk power electric system to withstand sudden disturbances such as electric short circuits or unanticipated loss of system components.

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REA received verbal permission from North American Electric Reliability Council on April 7, 1986, to reproduce this map and explanation as part of Congressional testimony.

SUMMARY DEMAND - RESOURCE
DATA COMPILED BY NERC

Geographic Locations	SUMMER LOADS/RESOURCES-MW Actual 1984	Projected 1986	Projected Resources 1986	Projected 86 Reserve-%	WINTER LOADS/RESOURCES-MW Actual 84/85	Projected 86/87	Projected 86/87 Resources	Projected 86/87 Reserve-%
ECAR	65851	69591	95330	37	67349	68042	96829	42
ERCOT	36851	39663	47440	20	31937	30595	48407	58
MAAC	35442	36040	49049	36	33384	32380	51262	58
MAIN	35186	35662	45478	28	27805	29442	49566	68
MAPP*	20666	22395	29372	31	18989	19960	29421	47
NPCC*	38144	40320	55192	37	37321	38440	57909	51
SERC	93400	100086	133104	33	106837	97773	137225	40
SPP	45562	48561	67703	39	35112	36662	67538	84
WSCC*	80048	83151	119540	44	77579	78387	121492	55

*United States Portion

Data Source:
1985 Electric Power Supply & Demand for 1985-1994
Copyright 1985 by North American Electric Reliability Council

REA received verbal permission from North American Electric Reliability Council on April 7, 1986, to reproduce this chart as part of Congressional testimony.

Mr. **Traxler**. You claim that rural electric co-ops can afford higher interest rates because they have profit margins. Didn't we already drop the available loan funds to recognize that rural co-ops are providing more of their own funds for operations?

Response. The loan levels are dropping because of lower demand. However, the borrowers are not providing more of their own funds due to the language on use of general funds that was included in the Continuing Resolution for FY 1986. REA is now unable to consider the borrower's level of general funds when making a loan or advance on a previously approved loan. In addition, higher interest rates should not be a problem for most borrowers. The average distribution borrower's total interest expense is less than 5 percent of total operating cost. Operating margins for the average distribution borrower are 1.5 times interest expense. Co-ops can have all construction financing needs met by loans, without use of their general funds. Therefore, an increase in interest expense should not be a hardship.

RURAL ELECTRIC RATES

Mr. **Traxler**. How do the rates of rural electric users compare with those of neighboring investor-owned utilities? Isn't it true that as of the beginning of 1985 that more than 75 percent of rural electrics had rates higher than their neighbors?

Response. When measured against revenue per kWh of neighboring utilities at the level of 1,000 kWh/month, as of January 1, 1985, the borrower price was higher in about 75 percent of the cases compared with 52 percent in 1981. As compared to the entire nation, however, the average borrower residential revenue/kWh continued to be lower—6.9¢ versus 7.3¢.

Mr. **Traxler**. What was the comparable percentage at the beginning of 1981?

Response. As mentioned earlier, the comparable percentage at the beginning of 1981 was 52 percent.

WHO CAN BORROW

Mr. **Traxler**. You complain that some borrowers shouldn't be getting loans from REA because you don't believe them to be sufficiently rural. How are you proposing to restrict who should be able to borrow from REA? Has anyone introduced your proposal as a bill, or will someone introduce it?

Response. Our legislative proposal calls for the phase-out of REA by the end of the decade. This is the only proposal being put forward at this time by the Administration that would restrict the ability of our borrowers to get financing from REA.

Mr. **Traxler**. To the extent that you believe that you have made some loans that you shouldn't have, please give us a list of ten loans you made for each year since 1981 that you believe didn't merit approval. If you can't give specific examples, then we must assume that all of your loans were good ones, and you don't have a basis for demanding a change in current policy because if it ain't broke, don't fix it.

Response. All loans have been made in accordance with provisions of the RE Act. I will provide a list of ten electric loans made each year since 1981 which were made to systems, which, on the basis of recorded data, appear to have been able to receive a greater portion or even all of their capital needs through self-generated funds or non-Federal lenders.

[The information follows:]

ELECTRIC LOANS

1981	Loan	Consumer Density	Equity %	Margins ($000)	Consumers (#000)	TIER 1/
Colorado 34	$5,329	17.30/mile	21	702	23.3	2.3
Holy Cross Electric Association, Inc., Glenwood Springs Service area includes Aspen and Vail ski areas in Colorado.						
Georgia 7	2,943	12.65	59	1,770	52.8	3.5
North Georgia Electric Membership Corporation, Dalton. Service area includes suburbs of Atlanta and Macon, Georgia.						
Georgia 51	2,543	10.70	31	874	22.8	2.4
Snapping Shoals Electric Membership Corporation, Covington. Service area includes suburbs between Baton Rouge and Lafayette, Louisiana.						
Georgia 77	1,495	11.60	38	1,784	26.8	3.7
Sawnee Electric Membership Corporation, Cumming. Service area includes suburbs of Atlanta, Gainesville, Georgia.						
Louisiana 9	18,195	9.9	53	3,225	68.2	2.5
Southwest Louisiana Electric Membership Corporation, Lafayette Service area includes suburbs between Baton Rouge and Lafayette, Louisiana.						
Minnesota 48	5,216	10.88	28	2,479	46.5	2.4
Anoka Electric Cooperative, Anoka. Service area includes northern suburbs of Minneapolis, St. Paul, Minnesota.						
South Carolina 40	5,436	13.70	29	1,017	20.1	2.2
Palmetto Electric Cooperative, Inc., Ridgeland. Service area includes Hilton Head, and vicinity of Beaufort, South Carolina.						
North Carolina 40	5,235	9.5	24	2,186	29.6	3.1
Brunswick Electric Member Corporation, Shallotte. Service area includes communities outside Wilmington, beach developments in North Carolina.						
Tennessee 35	952	11.13	48	724	21.5	2.5
Sequatchie Valley Electric Cooperative, South Pittsburg. Service area includes Cumberland Mountain vacation areas in Tennessee.						
Tennessee 38	3,401	13.96	39	1,030	24.8	3.3
Appalachian Electric Cooperative, Jefferson City. Service area includes communities north of Knoxville, Tennessee.						

1/ Time Interest Earned Ratio

1982	Loan	Consumer Density	Equity %	Margins ($000)	Consumers (#000)	TIER 1/
Florida 24	$1,600	33.0/mile	24	2,078	21.0	2.5
Florida Keys Electric Cooperative Association, Tavernier. Service area includes Florida Keys.						
Florida 25	17,389	21.6	32	5,886	77.8	1.9
Lee County Electric Cooperative, North Fort Meyers. Service area includes North Fort Meyers, Gulf Coast resort areas south to Naples.						
Georgia 37	3,123	12.2	29	3,839	38.1	4.3
Douglas County Electric Membership Corporation, Douglasville. Service area includes suburbs of Atlanta and Marietta, Georgia.						
Georgia 51	1,872	10.8	34	2,069	23.4	3.4
Snapping Shoals Electric Membership Corporation, Covington. Service area includes suburbs between Baton Rouge and Lafayette, Louisiana.						
Georgia 66	1,718	9.9	59	3,401	34.8	6.8
Flint Electric Membership Corporation, Reynolds. Service area includes suburbs of Macon and Columbus, Georgia.						
Georgia 84	10,222	14.7	30	4,069	51.3	2.4
Cobb Electric Membership Corporation, Marietta. Service area includes suburbs of Atlanta, Marietta, Georgia.						
Kentucky 58	932	10.5	33	427	9.3	2.6
Big Sandy Rural Electric Cooperative Corporation, Paintsville. Service area is in eastern Kentucky.						
Minnesota 65	5,642	15.9	29	1,509	33.7	1.9
Dakota Electric Association, Farmington. Service area includes suburbs south of Minneapolis, St. Paul, Minnesota.						
North Carolina 55	1,949	16.0	23	945	17.6	2.4
Carteret-Craven Electric Membership Corporation. Service area includes area around Morehead City, Cherry Point Air Station, North Carolina.						
Tennessee 19	4,244	11.4	57	3,782	58.0	8.2
Middle Tennessee Electric Membership Corportion, Murfreesboro. Service area includes suburbs of Nashville, Murfreesboro, Tennessee.						

1/ Time Interest Earned Ratio

1983	Loan	Consumer Density	Equity %	Margins ($000)	Consumers (#000)	TIER 1/
Alabama 22	$2,264	16.5/mile	24	944	14.0	2.6
Pioneer Electric Cooperative, Inc., Greenville. Service area is in Selma, Montgomery area in Alabama.						
Colorado 34	8,413	17.9	25	2,231	25.6	3.2
Holy Cross Electric Association, Inc., Glenwood Springs Service area includes Aspen and Vail ski areas in Colorado.						
Georgia 66	2,567	10.0	60	2,947	35.8	5.3
Flint Electric Membership Corporation, Reynolds. Service area includes suburbs of Macon and Columbus, Georgia.						
Indiana 72	1,050	10.1	39	758	9.8	2.8
Clark County Rural Electric Membership Corporation, Sellersburg. Service area is north of Louisville, Kentucky.						
Louisiana 9	20,713	10.5	49	8,646	76.6	4.4
Southwest Louisiana Electric Membership Corporation, Lafayette. Service area includes suburbs between Baton Rouge and Lafayette, Louisiana.						
Mississippi 28	5,909	10.2	39	2,509	33.2	3.6
Coast Electric Power Association, Bay St. Louis. Service area includes Gulf Coasts areas between Bay St. Louis, Gulf Port, and Biloxi, Mississippi.						
Oregon 24	864	26.9	20	459	5.5	2.3
Tillamook People's Utility District, Tillamook. Service area is along Oregon's Pacific coast.						
South Carolina 37	3,802	10.6	27	2,104	25.3	2.8
Mid-Carolina Electric Cooperative, Inc., Lexington. Service area is between Columbia and Augusta, South Carolina.						
South Carolina 40	4,900	15.2	35	2,062	24.2	2.8
Palmetto Electric Cooperative, Inc., Ridgeland. Service area includes Hilton Head, and vicinity of Beaufort, South Carolina.						
Tennessee 20	3,018	10.0	76	695	28.1	47.7
Gibson County Electric Membership Corporation, Trenton. Service area is in the Humboldt, Union City, New Jersey vicinity.						

1/ Time Interest Earned Ratio

1984	Loan	Consumer Density	Equity %	Margins ($000)	Consumers (#000)	TIER 1/
Florida 25	$14,352	22.4/mile	34	9,129	88.2	2.8
Lee County Electric Cooperative, North Fort Meyers. Service area includes North Fort Meyers, Gulf Coast resort areas south to Naples, Florida.						
Florida 33	17,499	20.7	25	6,250	89.6	2.4
Withlacoochee River Electric Cooperative, Inc., Dade City. Service area includes suburbs of Tampa, St. Petersburg, Florida.						
Georgia 7	1,934	12.9	59	1,976	56.5	3.6
North Georgia Electric Membership Corporation, Dalton. Service area includes suburbs of Atlanta and Macon, Georgia.						
Georgia 77	6,423	11.4	34	2,661	30.0	2.9
Sawnee Electric Membership Corporation, Cumming. Service area includes suburbs of Atlanta, Gainesville, Georgia.						
Georgia 84	11,908	15.7	32	5,636	64.0	2.5
Cobb Electric Membership Corporation, Marietta. Service area includes suburbs of Atlanta, Marietta, Georgia.						
Kentucky 58	658	10.8	37	591	9.7	2.8
Big Sandy Rural Electric Cooperative Corporation, Paintsville. Service area is in eastern Kentucky.						
New Jersey 6	1,050	19.5	17	1,195	8.2	3.0
Sussex Rural Electric Cooperative, Sussex. Service area includes ski areas of northern New Jersey.						
Ohio 56	686	10.2	33	888	9.4	2.2
Lorain-Medina Rural Electric Cooperative, Inc., Wellington. Service area includes suburbs of Cleveland, Akron, Ohio.						
Tennessee 51	3,252	12.52	73	923	21.7	12.5
Pickwick Electric Cooperative, Selmer. Service area is in Johnson City, Tennessee vicinity.						
Virginia 55	8,338	14.7	21	5,978	43.7	2.7
Northern Virginia Electric Cooperative, Inc., Manassas. Service area includes Manassas and other suburban areas of Washington, D.C.						

1/ Time Interest Earned Ratio.

Mr. TRAXLER. Has REA ever been legislated as a lender of last resort, or is that simply your goal?

Response. REA has never been legislated as the lender of last resort. It would not be consistent with the Administration's proposal to phase-out the agency to say that this is our goal.

Mr. TRAXLER. The real basis for your budget request is the Administration's philosphy of discontinuing credit assistance in rural areas, along with others, regardless of actual need and the availability of alternative credit sources. To what extent does your budget merely reflect this philosophy as opposed to the real need for REA?

Response. Our budget proposal is a reflection of need and the availability of alternative credit sources. As our study points out, 80% of REA's loan funds are now being spent on high density projects in predominantly non-rural areas. This reflects a major decline in need for our program in rural areas. Further, REA borrowers already make use of alternative credit sources in many areas, and there is a growing interest among private lenders to increase their business with REA borrowers.

SALES OF REA ASSETS

Mr. TRAXLER. The President wants to sell ConRail, five power marketing agencies, and major portions of the loan portfolios of government agencies, including REA. When you sell off the assets of an entity, don't you make it impossible for them to continue to operate at their traditional scale, and specifically, wouldn't this mean that the REA Revolving Fund in the future would not be able to respond to changes in demands for REA services?

Response. REA has over $13.9 billion in loans receivable outstanding, currently earning a weighted average interest rate of 4.99 percent. REA borrows either temporarily or in the form of Certificates of Beneficial Ownership (CBO's) at the prevailing Treasury interest rates for 30 years to advance loan funds and meet obligations. According to calculations, by selling assets in lieu of borrowing, REA would save $88 million over 30 years in interest expenses per $100 million of loan asset sales. We believe that REA is able to and will continue to meet borrowers' demand for REA services.

RURAL ELECTRIFICATION ADMINISTRATION
STATEMENT OF HAROLD V. HUNTER, ADMINISTRATOR
BEFORE THE HOUSE SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES

Mr. Chairman and members of the Committee, it is a privilege to appear before this Committee in support of the Rural Electrification Administration's (REA) annual budget and program proposals. I have a short statement and then I would be happy to answer any questions.

REA has achieved many of the goals established by the Congress. It has succeeded in bringing quality electric and telephone service to rural America. Through REA's direct loan and loan guarantee programs approximately $62 billion has been provided to rural electric and telephone utilities. Today's statistics attest to the success of the REA program.

Loan Program	Miles of Lines	Consumers/ Subscribers	U.S. Population Served	Farms with Service
Electric.....	2,082,100	10,836,400	11%	98.8%
Telephone....	868,300	4,746,900	4%	96.0%

Both electric and telephone borrowers' financial operations have steadily improved in recent years. We recognize that other rural economic indicators are negative and the agriculture community is suffering some losses. The margins of the borrowers are sufficient to absorb an increase in the borrowers' cost of operations without further adversely affecting the economics of the agricultural community. Over the last two decades the number of consumers served by REA borrowers has doubled from about 7 million to 14 million while the overall population in rural America has declined. REA borrowers have avoided many of the problems encountered by other sectors of rural America.

REA Telephone borrowers have prospered dramatically during the Reagan years. They have experienced substantial improvements in their revenue flows, thereby increasing the level of internally generated funds available for construction of any new facilities, if needed.

Telephone
(dollars in millions)

Year	Total Operating Revenues	Total Net Margins (Regulated)	Net Margins as a % of Total Revenue	Equity/ Assets	Times Interest Earned Ratio
1981	$2,042	$262	12.8	25%	2.34
1984	2,910	446	15.3	29%	2.77

REA electric distribution borrowers have also done well during these last 5 years.

Electric -Distribution Borrowers
(dollars in millions)

Year	Total Operating Revenues	Total Net Margins (Composite)	Net Margins as a % of Total Revenue	Equity/ Assets	Times Interest Earned Ratio
1981	$ 7,706	$413	5.5	30%	2.09
1984	10,812	884	8.2	34%	2.69

The consistently favorable financial trends reflected above for REA borrowers, both Electric and Telephone, illustrate that reduction in federal financing assistance will not jeopardize the economic health of these two industries.

REA power supply borrowers have invested some $20 billion for the 26,000 megawatts of generating capacity now in service. While most of the 63 REA generation and transmission cooperatives are on a stable course, several are experiencing serious financial problems arising from their participation in the construction of major generating facilities. REA is working with these troubled generation and transmission borrowers and is providing assistance consistent with program objectives and consumers' needs.

U.S. agriculture is currently experiencing severe economic stress while the Federal Government is striving to bring its fiscal affairs into balance. At the same time, the rural electric and rural telephone industries have been enjoying a relatively prosperous era due to substantial interest subsidies and service to non-rural areas. Given the economic crisis facing the U.S. agricultural community, it is unreasonable to expect the Federal Government to continue to subsidize the prosperity of REA borrowers, particularly without regard for the wide variance in revenue potential among borrowers. This cannot be reconciled with the goal to diminish the federal burden upon the taxpayer.

The budget proposal is consistent with the President's goal of reducing federal expenditures and increasing the use of private capital markets. This will contribute to a reduction in the federal deficit; a goal I know all of us are working to achieve.

The 1987 Budget Proposals

Loan Programs

The proposed budget estimates reflect a continued decrease in anticipated loan demand. As elsewhere in the electric industry, REA borrowers have surplus generating capacity and project only modest growth in electric demand. The budget proposal provides for $375 million in insured electric loans and

$225 million in electric loan guarantee commitments. The guaranteed funds will be used mainly to cover cost overruns on current generation projects.

The reduced loan levels in the 1987 budget proposal reflect two trends among the REA electric cooperatives.

(1) As previously stated, REA electric distribution borrowers have shown steady improvement in their financial strength. There is every reason to believe that based on the borrowers' outstanding record, they have achieved the financial strength necessary to obtain increased levels of funding through private channels. Private financing institutions, including the National Rural Utilities Cooperative Finance Corporation and the Banks for Cooperatives, are working to expand their activity in the rural utility business. With the continuing decline in interest rates, an increase in the amount of private capital from these sources will not have a significant adverse effect on the borrowers' composite interest expenses.

(2) Construction activity by REA power supply borrowers has dwindled. With excess generating capacity existing now and modest projections in electric demand, generation and transmission borrowers will not be constructing new generating facilities.

Reduced REA insured loan levels will not adversely impact the borrowers that need funds for rural electric and telephone systems, as private markets will be available to supplement the financial needs of REA borrowers. Through your efforts, the Farm Bill allows all REA electric and telephone borrowers to be eligible for loans from the Banks for Cooperatives.

For the telephone program, we are requesting $60 million in insured loans and $139 million for the Rural Telephone Bank. No funds for telephone loan guarantee commitments are being requested for 1987.

No appropriation is being proposed for the capitalization of Rural Telephone Bank stock. These funds are not needed. The Bank is allowed to borrow up to 20 times its' paid-in-capital and retained earnings.

Consistent with the 1987 proposals, we are requesting rescission of the $30 million of the Class A Stock of the Rural Telephone Bank, authorized during Fiscal Year 1986. These funds would be excess capital because the Bank has virtually unlimited authority to borrow from Treasury.

We are also proposing rescission of the $100 million in direct appropriations made available in 1986 for reimbursement to the REA revolving fund. During 1984, the year on which the appropriation is based, the revolving fund had a net cash income of more than $83 million. A reimbursement to the fund is not needed.

We are proposing to end the interest subsidy on REA loans by raising the 5 percent interest rate to the cost of money to the Treasury plus 1 1/8 percent. Treasury plus 1 1/8 percent is approximately the equivalent interest rate for AA rated utilities. Many of our borrowers could qualify for such a rate on the open market. Some, however, would receive lower ratings and would have to pay higher interest rates for private capital. These borrowers would still receive REA loans at a rate below what they would be offered on the open market. Interest expense represents between 4 and 5 percent of a borrower's total operating expenses. Market interest rates such as Treasury plus 1 1/8 percent would mean an increase of about 65 cents more per month for the average residential electric consumer - and that's just for consumers of REA borrowers who decide to undertake a major new project. Again, requests for loans are down significantly due to low electricity demand and over capacity. Most consumers will not see any change in their bills because their rural cooperative will not be borrowing money at the higher interest rate.

We are also proposing that REA assess an annual fee on all REA guaranteed power supply borrowers to cover principal and interest losses that have resulted from non-payments of borrowers.

Changes are needed in REA's loan procedures to better target the use of federal loan funds. The Office of Inspector General has indicated, and I concur, that REA should not be lending funds to financially successful utilities serving predominantly non-rural areas. Statutory language prevents REA from targeting loans to borrowers based on need. Passage by Congress last year of an amendment striking our general funds policy forces REA to lend precious resources to any applicant, regardless of the amounts of excess funds held by the borrower.

Salaries and Expenses

The Agency will require $26,355,000 for administrative expenses in FY 1987. The budget proposes to charge an upfront user fee of 5 percent on insured loans to finance the administrative costs of the agency. This fee would be deposited into the appropriate accounts and be available to offset Salaries and Expenses. In FY 1987 we expect to receive approximately $22 million from the 5 percent fee on insured loans and would require only $5 million in appropriated funds.

The budget proposal provides for a staffing level of 535, a reduction of 45 from current employment which can be achieved through normal attrition. Over the past 3 years, a period in which we have experienced a decrease in our employment levels, we have seen the time it takes to process a loan application reduced considerably. We feel that the 535 staff years will be adequate to administer the proposed programs during FY 1987.

The budget contains long-range proposals for the Congress to consider and includes a recommendation to gradually phase-out REA and RTB lending activities by 1990. It provides for appropriate staffing levels necessary to process loan applications during FY 1987 through FY 1990 and to service the approximately $38 billion in loans and loan guarantees currently outstanding.

These proposals are consistent with the Balanced Budget and Emergency Deficit Control Act of 1985 which mandates that reductions be made in the federal deficit. In view of the Nation's sound financial climate and the improved economic status of the rural utility industry, now is the time for cooperatives to become less dependent on the Federal Government and more in control of their own destiny.

In conclusion, Mr. Chairman, most REA borrowers are in the best financial condition of their history. REA has helped them build systems which fully meet the needs of today's consumers and those of the immediate future. The time has arrived for Congress to further implement the policy it set forth in the 1973 rural electrification and telephone revolving fund legislation when it said,"...rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms consistent with the loan applicant's ability to pay and achievement of the Act's objectives."

The Act's objectives have been met. The sources of credit are available and in place. The costs of that credit are lower now than at any time in recent memory. Most importantly, our borrowers have attained the financial strength to get credit elsewhere.

I support the President's 1987 Budget proposals for REA programs and I urge you to support them also.

This is the end of my prepared remarks. I will be happy to answer any questions.

BIOGRAPHICAL SKETCH OF DONALD L. OLSEN
ACTING ASSISTANT ADMINISTRATOR - ELECTRIC

Donald L. Olsen has been Deputy Assistant Administrator - Electric since March 1980. Mr. Olsen has been serving as Acting Assistant Administrator - Electric since July 1, 1985.

He came to REA in 1958 as an electrical engineer. Most of his early years his capabilities were applied to assessing distribution systems, both in the field and the Washington office, and in power supply planning. In 1976 Mr. Olsen became an Area Director.

A graduate of Colorado State University in Fort Collins. Mr. Olsen holds a Bachelor of Science Degree in Electrical Engineering. He has also completed a number of specialized graduate courses in the power area. He is a native of Kiowa, Colorado.

Mr. Olsen and daughter reside in Fairfax County, Virginia.

BIOGRAPHICAL SKETCH OF RUTH RAYMOND
DIRECTOR, OFFICE OF BUDGET

Ruth Raymond joined the Rural Electrification Administration (REA) on detail from the Farmers Home Administration (FmHA) in June 1985 as Acting Director, Office of Budget, and transferred permanently to REA in October 1985.

Prior to joining REA, Mrs. Raymond served as Chief of the Administrative Expenses Branch in the FmHA Budget Division. She began her government career in 1964 as a Budget Analyst with FmHA, and has held positions of increasing responsibility in the budget field since that time.

Mrs. Raymond is a native of New York and graduated from Bentley College in Boston, Massachusetts, in 1959. She resides with her husband in Fairfax, Virginia. They have a daughter, Lisa, who is attending the University of Delaware.

RURAL ELECTRIFICATION ADMINISTRATION

Purpose Statement

Rural Electrification Administration

The Rural Electrification Administration (REA) was established by Executive Order 7037 on May 11, 1935, to provide loan funds to eligible borrowers for the purpose of extending central station electric service to unserved persons in rural areas. Statutory provision for the agency was made in the Rural Electrificaton (RE) Act of May 20, 1936, and on July 1, 1939, under Reorganization Plan II, REA became a part of the Department of Agriculture. On October 28, 1949, the purpose of REA was expanded by Public Law 423, which amended the Act to authorize loans for furnishing telephone service to rural areas.

Public Law 93-32, enacted May 11, 1973, amended the Rural Electrification Act of 1936, as amended, by establishing a "Rural Electrification and Telephone Revolving Fund" (RETRF) for the purpose of making insured loans to REA electric and telephone borrowers. Loans made under this authority bear either 2 or 5 percent interest in accordance with criteria specified in the Act, and have a maturity not to exceed 35 years. The Act also authorized REA to guarantee loans made by other lenders at rates and terms agreed upon between the lender and the borrower. The Rural Electrification and Telephone Revolving Fund legislation contains the following statement of Congressional intent regarding the REA programs:

> ... it is hereby declared to be the policy of the Congress that adequate funds should be made available to rural electric and telephone systems through direct, insured and guaranteed loans at interest rates which will allow them to achieve the objectives of the Rural Electrification Act of 1936, as amended; and that such rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms consistent with the loan applicant's ability to pay and achievement of the Act's objectives.

In October 1976, Public Law 94-570 amended the Act, changing the statutory criteria used in determining eligibility for the special interest rate (2 percent) insured loans. The change in criteria corrected unintended inequities resulting from P.L. 93-32, to bring the number of borrowers eligible for the special rate more in line with Congressional intent and with borrowers' actual needs for loan funds at this rate.

On August 13, 1981, the Omnibus Budget Reconciliation Act, Public Law 97-35, was signed into law to further amend the RE Act. This legislation changed the Act by eliminating the special 2 percent interest rate on insured loans from the RETRF. It did provided, however, that the Administrator may make insured loans at a rate less than 5 percent, but not less than 2 percent, if the borrower has experienced extreme financial hardship, or cannot provide service consistent with the objectives of the Act without charging rates so high that a substantial disparity results between such rates and those charged for similar services in the same or nearby areas by other suppliers.

As of September 30, 1985, REA employed a total of 580 full-time permanent employees, 3 part-time permanent employees, and 8 other employees. The field staff, consisting of 124 permanent full-time employees, are located throughout the United States. These employees utilize their homes as their offices. REA maintains no field offices. The Washington staff was composed of 459 permanent employees and 8 other employees.

Rural Telephone Bank

Public Law 92-12, approved May 7, 1971, amended the Rural Electrification Act of 1936, as amended, to establish the Rural Telephone Bank as a supplemental source of financing for the growing capital needs of rural telephone systems. Public Law 92-324, approved June 20, 1972, further amended the Act to permit the Secretary of the Treasury to purchase the Bank's debentures.

Public Law 93-32 made additional amendments to the Act and provided for Bank borrowing authority of 20 times its paid-in capital and retained earnings. It also required that the Bank charge a single interest rate, based on the average cost of money to the Bank, but not less than 5 percent per annum. Bank loans must be fully amortized over a period not to exceed 50 years. Most loans have been made for a 35-year period.

The Rural Telephone Bank is managed by a 13-member board of directors. The Administrator of REA serves as Governor of the Bank until conversion to private ownership, control, and operation, which will take place when 51 percent of the Class A Stock issued to the United States and outstanding at any time after September 30, 1985, has been fully redeemed and retired. The Bank board holds at least four regularly scheduled meetings a year. Activities of the Bank are carried out by REA and the Office of the General Counsel employees.

Through fiscal year 1985, $420 million in Bank capitalization had been made available through the purchase by the United States of the Rural Telephone Bank's Class A Stock. Although the RE Act had originally set the maximum Government contribution at $300 million, the Farm Bill of 1981 amended the RE Act to permit continued Class A stock purchases in annual amounts not to exceed $30 million, through fiscal year 1991, with total purchases not to exceed $600 million.

Rural Communication Development Fund

The Rural Development Insurance Fund (RDIF) was established on October 1, 1972, pursuant to section 116 of the Rural Development Act of 1972 (Public Law 92-419) approved August 30, 1972. The Rural Communication Development Fund (RCDF), a separate account of the RDIF, was established pursuant to Secretary's Memorandum No. 1988 approved May 22, 1979. This action transferred certain financing authorities under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) from the Farmers Home Administration (FmHA) to the Rural Electrification Administration for the purpose of financing the construction of community antenna television services or facilities in rural areas. The RCDF was set up to insure or guarantee loans for community antenna television services or facilities to both cooperatives and commercial borrowers. The program was authorized to utilize the Community Facility authority and the Business and Industrial authorities of the Rural Development Act of 1972.

During fiscal years 1979 and 1980, loan guarantees and administrative costs were funded from amounts authorized for or originally appropriated to FmHA. Since fiscal year 1980, all applicable administrative costs have been provided for in the REA Salaries and Expenses appropriation. Loan authority made available is provided for separately under the Rural Communication Development Fund.

In 1981, it was determined that sufficient capital was available from private investors, and that the activity could be more appropriately financed by the private sector. However, REA administered the existing program by continuing to make advances on previous loan obligations and perform debt servicing. The last loan approved or guaranteed under this authority was in Fiscal Year 1981.

RURAL ELECTRIFICATION ADMINISTRATION

Available Funds and Staff-Years

1985 Actual and Estimated, 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Loan authorizations:						
Rural electrification:						
Insured loans	$ 562,029,000	--	$ 650,000,000	--	$ 375,000,000	--
Loan guarantees	74,607,000	--	850,000,000	--	225,000,000	--
Total, electric loans	636,636,000	--	1,500,000,000	--	600,000,000	--
Rural telephone:						
Insured loans	224,589,000	--	250,000,000	--	60,000,000	--
Loan guarantees	---	--	125,000,000	--	-0-	--
Total, telephone loans	224,589,000	--	375,000,000	--	60,000,000	--
Rural Telephone Bank Loans....	167,773,200	--	185,000,000	--	139,000,000	--
Total, REA & RTB Loan Authorizations	1,028,998,200	--	2,060,000,000	--	799,000,000	--
Appropriated Funds:						
Salaries and expenses	28,202,434	593	30,804,000	594	26,355,000	529
Reimbursement to the revolving fund for interest subsidies and losses....................	215,964,000	--	100,000,000	--	--	--
Purchase of Capital Stock....	30,000,000	--	30,000,000	--	--	--
Total, Appropriated Funds.......	274,166,434	593	160,804,000	594	26,355,000	529
Other Federal Funds:						
Miscellaneous reimbursements.	6,834	--	10,000	--	10,000	--
Federal Financing Bank	206,930	5	246,000	6	250,000	6
Total, Other Federal Funds ..	213,764	5	256,000	6	260,000	6
Total, Rural Electrification Administration, Rural Telephone Bank	1,303,378,398	598	2,221,060,000	600	825,615,000	535

Full-time Equivalent Staff-Years	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	598	600	535
Non-Ceiling	--	--	--
Total	598	600	535

RURAL ELECTRIFICATION ADMINISTRATION

Permanent Positions by Grade and Staff-Year Summary

1985 and Estimated 1986 and 1987

Grade	1985			1986			1987		
	Headquarters	Field	Total	Headquarter	Field	Total	Headquarters	Field	Total
Executive Level V	1	--	1	1	--	1	1	--	1
ES-4	1	--	1	2	--	2	2	--	2
ES-3	2	--	2	2		2	2		2
GS/GM-15	15	--	15	17	--	17	14	--	14
GS/GM-14	55	--	55	59	--	59	53	--	53
GS/GM-13	95	112	207	97	119	216	87	119	206
GS-12	59	5	64	60	8	68	53	8	61
GS-11	33	2	35	36	4	40	27	4	31
GS-10	--	--	--	1	--	1	1	--	1
GS-9	28	3	31	34	2	36	26	2	28
GS-8	11	--	11	11	--	11	9	--	9
GS-7	41	2	43	44	2	46	39	2	41
GS-6	41	--	41	43	--	43	39	--	39
GS-5	25	--	25	26	--	26	24	--	24
GS-4	22	--	22	23	--	23	20	--	20
GS-3	19	--	19	19	--	19	17	--	17
GS-2	7	--	7	7	--	7	5	--	5
Ungraded Positions	1		1	1		1	1		1
Total Permanent Positions.......	456	124	580	483	135	618	420	135	555
Staff-Years:									
Ceiling.........	469	129	598	465	135	600	400	135	535
Non-Ceiling.....	--	--	--	--	--	--	--	--	--
TOTAL........	469	129	598	465	135	600	400	135	535

RURAL ELECTRIFICATION ADMINISTRATION

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

	1985	1986	1987
Personnel Compensation:			
Headquarters	$15,234,494	$15,831,594	$14,115,790
Field	5,542,186	5,759,406	5,135,210
11 Total personnel compensation	20,776,680	21,591,000	19,251,000
12 Personnel benefits	2,673,986	2,806,000	2,503,000
13 Benefits to Former Personnel	5,356	7,000	5,000
Total, Personnel Compensation and Benefits	23,456,022	24,404,000	21,759,000
Other Objects:			
21 Travel	1,687,779	1,933,000	1,568,000
22 Transportation of things	53,257	57,000	45,000
23.2 Communications, Utilities and Other Rent	981,801	1,001,000	950,000
24 Printing and reproduction	328,246	340,000	295,000
25 Other services	1,132,360	2,415,000	1,422,000
26 Supplies and materials	196,957	227,000	166,000
31 Equipment	335,002	395,000	150,000
44 Refunds and Adjustments	2,314	0	0
Total Other Objects	4,717,716	6,368,000	4,596,000
Total Direct Obligations	28,173,738	30,772,000	26,355,000
Position Data:			
Average Salary, ES positions	67,055	67,466	67,466
Average Salary, GS positions	34,941	35,224	35,509
Average Grade, GS positions	10.50	10.52	10.56

RURAL ELECTRIFICATION ADMINISTRATION

The estimates include appropriation language for this item as follows (deleted matter enclosed in brackets; new material underscored):

RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND LOAN AUTHORIZATIONS

To carry into effect the provisions of the Rural Electrification Act of 1936, as amended (7 U.S.C. 901-950 (b)), as follows:

[Insured loans pursuant to the authority of section 305 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 935), shall be made as follows: rural electrification loans, not [less than $650,000,000 nor] more than [$975,000,000] $375,000,000; and rural telephone loans, not [less than $250,000,000 nor] more than [$325,000,000] $60,000,000; to remain available until expended: Provided, That loans made pursuant to section 306 of that Act are in addition to these amounts but during [1986] 1987 total commitments to guarantee loans pursuant to section 306 shall be not [less than $975,000,000 nor] more than $2,195,000,000] $225,000,000 of contingent liability for total electric loan principal. Provided further, That as a condition of approval of insured electric loans during fiscal year 1987, borrowers shall obtain concurrent supplemental financing in accordance with the applicable criteria and ratios in effect as of July 15, 1982.]

During fiscal year 1987, gross obligations for the principal amount of direct loans pursuant to the authority of section 305 of the Rural Electrification Act of 1936, as amended (7 U.S.C. 935), shall not exceed $435,000,000: Provided, That rural electrification loans shall not exceed $375,000,000 and rural telephone loans shall not exceed $60,000,000. During fiscal year 1987, commitments to guarantee loans pursuant to section 306 of said Act may be made only to the extent that the total electrification loan principal, any part of which is to be guaranteed, shall not exceed $225,000,000.

The 1987 appropriation language eliminates the range for insured and guaranteed electric and telephone loans. It establishes new limitations for the loan programs and simplifies the language for this account.

DEPARTMENTAL OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION
Rural Electrification and Telephone Revolving Fund

Loan Authorizations

	Loan Authorizations	Estimated Obligations for Loans, Loan Guarantee Commitments, and Interest Expense
Electrification Loans:		
Insured Loan Program:		
Appropriation Act, 1986 a/ ..	$ 650,000,000	$873,882,000
Budget Estimate, 1987 b/	375,000,000	608,493,000
Change	-275,000,000	-265,389,000
Loan Guarantee Commitments:		
Appropriation Act, 1986 a/ ..	850,000,000	850,000,000
Budget Estimate, 1987 b/	225,000,000	225,000,000
Change	-625,000,000	-625,000,000
Decrease From 1986	-900,000,000	-890,389,000
Telephone Loans:		
Insured Loan Program:		
Appropriation Act, 1986 a/ ..	250,000,000	299,124,000
Budget Estimate, 1987 b/	60,000,000	111,233,000
Change	-190,000,000	-187,891,000
Loan Guarantee Commitments:		
Appropriation Act, 1986 a/ ..	125,000,000	125,000,000
Budget Estimate, 1987 b/	-0-	-0-
Change	-125,000,000	-125,000,000
Decrease From 1986	-315,000,000	-312,891,000

SUMMARY OF INCREASES AND DECREASES
(On basis of loan authorizations)

	1986 Estimated a/	Change	1987 Estimated b/
Rural Electrification Program:			
Insured loans	$ 650,000,000	-$275,000,000	$375,000,000
Loan guarantee commitments .	850,000,000	-625,000,000	225,000,000
Total	1,500,000,000	-900,000,000	600,000,000
Rural Telephone Program:			
Insured Loans	250,000,000	-190,000,000	60,000,000
Loan guarantee commitments .	125,000,000	-125,000,000	-0-
Total	375,000,000	-315,000,000	60,000,000
Total loan authorization	1,875,000,000	-1,215,000,000	660,000,000

See footnotes, next page.

PROJECT STATEMENT
(On basis of loan authorizations)

Project	1985 Actual a/	1986 (Estimated) a/	Increase or Decrease (-)	1987 (Estimated) b/
1. Rural Electrification loans:				
Insured loans ...	$ 850,000,000	$ 650,000,000	-$ 275,000,000	$ 375,000,000
Loan guarantee Commitments ..	1,200,000,000	850,000,000	-625,000,000	225,000,000
Total	2,050,000,000	1,500,000,000	- 900,000,000	600,000,000
2. Rural telephone loans:				
Insured loans ...	250,000,000	250,000,000	-190,000,000	60,000,000
Loan guarantee Commitments ..	125,000,000	125,000,000	-125,000,000	-0-
Total	375,000,000	375,000,000	-315,000,000	60,000,000
Total loan authorization ...	2,425,000,000	1,875,000,000	-1,215,000,000	660,000,000

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a/ A regular 1986 appropriation for this account had not been enacted at the time this budget was prepared. A continuing resolution (Public Law 99-190) provides funds through September 30, 1986, at a rate consistent with amounts that would be provided by the conference version of H.R. 3037.

b/ The 1987 Budget proposes $375,000,000 for insured electric loans and $60,000,000 for insured telephone loans, and $225,000,000 for electric loan guarantee commitments. These estimates do not reflect legislation proposed for later transmittal to increase interest rates to borrowers of insured loans to the cost of borrowing to the Treasury plus 1 1/8 percent.

PROJECT STATEMENT
(On basis of actual or estimated obligations for loans and interest expense)

Project	1985 Actual	1986 (Estimated)	Increase or Decrease (-)	1987 (Estimated)
1. Rural electrification loans:				
Interest expense .	$ 225,535,913	$ 223,882,000	+$ 9,611,000 (1)	$ 233,493,000
Insured loans	562,029,000	650,000,000	-275,000,000 (2)	375,000,000
Loan guarantee commitments ...	74,607,000	850,000,000	-625,000,000 (3)	225,000,000
Total	862,171,913	1,723,882,000	-890,389,000	833,493,000
2. Rural telephone loans:				
Interest expense .	49,487,293	49,124,000	+2,109,000 (4)	51,233,000
Insured loans	224,589,000	250,000,000	-190,000,000 (5)	60,000,000
Loan guarantee Commitments ...	-0-	125,000,000	-125,000,000 (6)	-0-
Total	274,076,293	424,124,000	-312,891,000	111,233,000
Total estimated obligations ...	1,136,248,206	2,148,006,000	-1,203,280,000	944,726,000

EXPLANATION OF ELECTRIC AND TELEPHONE LOAN PROGRAM

The loan authorizations of the Rural Electrification Administration are used to carry out the provisions of the Rural Electrification Act of 1936, as amended. The objectives of the program are to assure that rural communities have access to reliable electric and telephone services. REA conducts two loan programs: (1) The rural electrification program, which provides central station electric service to farms and other rural establishments; and (2) the rural telephone program, which furnishes and improves telephone service in rural areas.

Legislation will be proposed to restore interest rates on REA loans to Treasury's cost of borrowing plus 1 1/8 percent. The FY 1987 loan level reductions reflect the first stage of a proposed phase-out of REA loan and loan guarantee programs by FY 1990. Supplemental financing ratios will be adjusted each year consistent with the phase-out of the Federal loans and guarantees.

Electrification Program Statistics
(Dollars in thousands)

	Cumulative Thru FY 1985 Actual	Cumulative Estimates FY 1986	Cumulative Estimates FY 1987
Net loans	$18,607,068	$19,257,068	$19,632,068
Fund advances	$16,960,119	$17,585,119	$17,985,119
Unadvanced funds, end of year	$1,646,949	$1,671,949	$1,700,862
Principal repaid	$5,657,422	$6,108,442	$6,466,881
Interest paid 1/	$4,658,449	$5,094,870	$5,545,321
Loan guarantee commitments	$32,372,594	$33,222,594	$34,072,594
Consumers served-calendar year(thousand-estimated) 2/	11,172	11,506	11,840
Miles energized-calendar year(thousand-estimated) 2/	2,109	2,135	2,160
Number of borrowers	993	993	993

Telephone Program Statistics
(Dollars in thousands)

	Cumulative Thru FY 1985 Actual	Cumulative Estimates FY 1986	Cumulative Estimates FY 1987
Net loans	$4,938,185	$5,235,302	$5,295,302
Fund advances	$4,099,288	$4,224,288	$4,324,288
Unadvanced funds, end of period	$838,897	$1,011,014	$971,014
Principal repaid	$1,198,130	$1,310,376	$1,425,937
Interest paid 1/	$1,000,421	$1,108,400	$1,219,849
Loan guarantee commitments	$679,454	$804,454	$804,454
Route miles of line constructed or improved-(thousand-estimated) 3/	884	903	920
Dial subscribers, new and improved service-calendar year (thousands-estimated) 3/	4,880	5,002	5,125
Number of borrowers	1,006	1,023	1,031

1/ Includes interest received by REA as trustee for holders of certificates of beneficial ownership.

2/ Data represents accomplishments from all sources of funds.

3/ Data represents accomplishments from borrowers financed 20% or more by REA, RTB, and guaranteed loans.

Application of Federal Credit Controls - The 1987 budget contains language proposals to eliminate the range for insured electric and telephone loans. The language for loan guarantee commitments proposes to eliminate the range and to establish upper limits.

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of $9,611,000 to cover interest expenses of the Rural Electrification and Telephone Revolving Fund (RETRF) applicable to the electric program ($223,882,000 estimated in 1986).

Need for change. Advances made to borrowers from the revolving fund in excess of principal repayments and interest receipts are covered on an interim basis by REA borrowings from the Treasury. On March 31 and September 30 of each year, Certificates of Beneficial Ownership (CBO's) are sold in an amount necessary to repay the interim borrowings, plus an amount to cover interest accrued on these borrowings and on the balance of the CBO's outstanding at the beginning of the period. The interest expense applicable to the interim borrowings and the CBO's outstanding are expenses of the revolving fund. Interest expense to the electric loan program is estimated at $223.8 million in fiscal year 1986, and $233.5 million in 1987.

Nature of change. This results in additional sales of assets of the RETRF and no increase in budget authority or outlays.

(2) A decrease of $275,000,000 in insured electric loans from the RETRF ($937,971,000 estimated in 1986).

Need for change. This reduction is made in conjunction with the Administration's economic and budget control plan which will reduce Federal involvement in general credit activities and limit economic subsidies to recipients which have the greatest need.

Nature of change. While the level of insured loans will be reduced, REA borrowers can increase the portion of their total financing from other funding mechanisms to supplement REA financing.

(3) A decrease of $625,000,000 in electric loan guarantee commitments ($1,600,000,000 estimated in 1986).

Need for change. This reduction is made in conjunction with the Administration's economic and budget control plan which will reduce Federal involvement in general credit activities and limit economic subsidies to recipients which have the greatest need. This also reflects the currently reduced level of demand for electric loan guarantees.

Nature of change. The level of REA loan guarantee commitments is reduced to reflect the decline in demand for this form of financing. Where needed, REA borrowers can increase the portion of their total financing from other funding mechanisms such as pollution control bonds and leverage leasing.

(4) An increase of $2,109,000 to cover interest expenses of the RETRF applicable to the telephone program ($49,124,000 estimated in 1986).

Need for change. Advances made to borrowers from the revolving fund in excess of principal repayments and interest receipts are covered on an interim basis by REA borrowings from the Treasury. On March 31 and September 30 of each year Certificates of Beneficial Ownership (CBO's) are sold in an amount necessary to repay the interim borrowings, plus an amount to cover interest accrued on these borrowings and on the balance of CBO's outstanding at the beginning of the period. The interest expense applicable to the interim borrowings and the CBO's outstanding are expenses of the revolving fund. Interest expense to the telephone program is estimated at $49.1 million in fiscal year 1986, and $51.2 million in 1987.

Nature of change. This results in additional sales of assets of the RETRF, therefore there is no increase in budget authority or outlays.

(5) A decrease of $190,000,000 in insured telephone loans from the RETRF ($297,117,000 estimated in 1986).

Need for change. This reduction is made in conjunction with the Administration's economic and budget control plan which will reduce Federal involvement in general credit activities and limit economic subsidies to recipients which have the greatest need.

Nature of change. While the level of insured loans will be reduced, REA borrowers can increase the portion of their total financing from other funding mechanisms, including Rural Telephone Bank loans.

(6) A decrease of $125,000,000 in telephone loan guarantee commitments ($125,000,000 estimated in 1986).

Need for change. This reduction is made in conjunction with the Administration's economic and budget control plan which will reduce Federal involvement in general credit activities and limit economic subsidies to recipients which have the greatest need. This also reflects the currently reduced level of demand for telephone loan guarantees.

Nature of change. REA loan guarantee commitments will be discontinued due to the decline in demand for this form of financing. Where needed, REA borrowers can increase the portion of their total financing from other funding sources.

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Number and Amount of REA Direct Electrification and Telephone Loans by State, Fiscal Year 1985

STATES	ELECTRIFICATION LOANS		TELEPHONE LOANS	
	NO.	Amount	No.	Amount
UNITED STATES	169	$562,029,000	74	$224,589,000
Alabama	4	7,919,000	6	20,168,000
Alaska	2	39,586,000	2	12,433,000
Arizona	1	3,124,000	1	7,295,000
Arkansas	2	7,791,000	3	5,833,000
California			2	5,829,000
Colorado	1	1,267,000		
Delaware	1	3,107,000		
Florida	5	38,762,000		
Georgia	18	62,934,000	3	8,454,000
Idaho	1	2,078,000	3	3,822,000
Illinois	6	11,353,000		
Indiana	5	3,809,000		
Iowa	8	9,695,000	3	1,098,000
Kansas	5	10,570,000	4	8,150,000
Kentucky	4	3,996,000	1	17,251,000
Louisiana	4	24,897,000	1	970,000
Maine	1	501,000	1	3,285,000
Michigan	7	13,121,000	2	5,624,000
Minnesota	10	23,150,000	8	21,258,000
Mississippi	3	9,049,000	2	7,541,000
Missouri	2	4,664,000		
Montana	8	19,899,000	2	17,673,000
Nevada	3	6,408,000		
New Mexico	2	1,113,000	1	2,253,000
North Carolina	7	24,207,000	1	1,575,000
North Dakota	2	4,532,000	6	27,374,000
Ohio	5	6,503,000		
Oklahoma	5	16,975,000		
Oregon	1	1,003,000		
Pennsylvania	5	8,647,000		
South Carolina	7	54,775,000		
South Dakota	7	8,513,000	5	8,567,000
Tennessee	2	6,759,000	4	16,519,000
Texas	17	107,904,000	7	14,661,000
Vermont	1	1,981,000		
Virginia	1	518,000		
Washington	1	3,354,000		
Wisconsin	4	3,727,000	6	6,956,000
Wyoming	1	3,838,000		

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Number and Amount of REA Loan Guarantee Commitments, Electrification and Telephone, Fiscal Year 1985

STATES	ELECTRIC GUARANTEE		TELEPHONE GUARANTEE	
	No.	Amount	No.	Amount
UNITED STATES	4	$74,607,000	0	0
Alaska	1	18,120,000		
Kansas	1	10,000,000		
North Carolina	1	4,987,000		
Pennsylvania	1	41,500,000		

RURAL ELECTRIFICATION ADMINISTRATION

The estimates include appropriation language for this item as follows (deleted matter enclosed in brackets; new material underscored):

Reimbursement to the Rural Electrification and Telephone Revolving Fund

> [For an additional amount to reimburse the rural electrification and telephone revolving fund for interest subsidies and losses substained in prior years, but not previously reimbursed in carrying out the provisions of the Rural Electrification Act of 1936, as amended (7 U.S.C. 901-950(b)), $100,000,000.]

The change proposes deletion of the language authorizing reimbursement to the Rural Electrification and Telephone Revolving Fund for interest subsidies and losses. Since no appropriation is requested in fiscal year 1987, retention of the language is unnecessary.

Reimbursement for Interest Subsidies and Losses

Appropriation Act, 1986	$100,000,000 a/
Budget Estimate, 1987......................................	---
Cnange in Appropriation....................................	-$100,000,000

SUMMARY OF INCREASES AND DECREASES

Item of Change	1986 Estimated	Program Change	1987 Estimated
Reimbursement to the revolving fund for interest subsidies and losses	$100,000,000 a/	-$100,000,000	--

PROJECT STATEMENT
(On basis of appropriation)

Project	1985 Actual	1986 Estimated	Increase or Decrease (-)	1987 Estimated
Reimbursement to the revolving fund for interest subsidies and losses	$215,964,000	$100,000,000	-$100,000,000	--

a/ A request has been submitted to the Congress to rescind $100,000,000 in appropriations to reimburse the revolving fund for interest subsidies and losses incurred in fiscal year 1984.

EXPLANATION OF PROGRAM

This account reimburses the Rural Electrification and Telephone Revolving Fund for interest subsidies and losses sustained in carrying out the provisions of the Rural Electrification Act of 1936, as amended. The fund has never incurred a loss since its inception in 1973. No appropriation is requested for fiscal year 1987.

JUSTIFICATION OF DECREASE

(1) A decrease of $100,000,000 for interest subsidies and losses to the revolving fund.

Need for Change. This account is to reimburse the Rural Electrification and Telephone Revolving Fund for interest subsidies and losses sustained in prior years. The Fund has never incurred a loss since its inception in 1973. It is exempt by statute from paying $307 million in annual interest costs to the Treasury on advances totaling $7.9 billion. In 1984, the Fund's interest receipts exceeded its interest expenses by $104 million. An appropriation to reimburse the revolving fund is not needed.

Nature of Change. No appropriation is requested for fiscal year 1987 for the reimbursement for interest subsidies and losses.

RURAL ELECTRIFICATION ADMINISTRATION

STATUS OF PROGRAM

The Rural Electrification Administration is authorized by the Rural Electrification Act of 1936, as amended, to provide capital through insured loans from the Rural Electrification and Telephone Revolving Fund, the Rural Telephone Bank, and guarantees of loans by other lenders to qualified rural electric and telephone organizations. The objective of these programs is to help improve the quality of life in rural areas by assisting people in eligible rural communities to obtain reliable electric and telephone service.

The Federal Financing Bank (FFB) has to date been the principal source of funds under REA guarantee. Under a renewable agreement between the FFB and REA the FFB has agreed to provide loan funds to rural electric and telephone systems under REA guarantee up to a specific aggregate total; the amount available for guarantee by FFB is revised as required.

GENERAL PROGRAM ADMINISTRATION

Since the start of the program through September 30, 1985, approximately $5.7 billion in regular principal payments and $4.7 billion in interest payments have been made by electric borrowers. Telephone borrowers have paid $1.2 billion in principal and $983.2 million in interest. As of September 30, 1985, there was one electric and two telephone borrowers in arrears with delinquencies of $98,254,035 and $20,534 respectively.

The balance of advance payments by electric and telephone borrowers was $100.2 million on September 30, 1985, an increase of $12.4 million from a year earlier, and a decrease of $218.5 million from June 30, 1972. In the electric program, the advance payment balance went to $56.1 million as of September 30, 1985, an increase of $5.4 million from a year earlier and a decrease of $237.4 million from June 30, 1972. In the telephone program, the advance payment balance increased to $44.1 million as of September 30, 1984, an increase of $7 million from September 30, 1985, and $18.9 million from June 30, 1972.

Automation of various accounting functions has continued. During the past year the process of recording and accounting for loans approved and rescinded, notes received and paid-in-full as well as transfers or mergers between borrowers was converted from a manual to an automated system.

Accounting and Auditing - REA accountants are responsible for conducting accounting reviews and Loan Fund Audits (LFA) of borrower accounting systems and procedures in both the electric and telephone programs. The main objectives of these reviews are to determine the adequacy of the borrowers' accounting for loan advances and other Construction Fund receipts and the propriety of Construction Fund expenditures, to evaluate the effectiveness of borrowers' internal plant accounting control systems, and to review the adequacy of the annual CPA audits. During fiscal year 1985, REA accountants completed 617 LFA's in the electric and telephone programs. In 190 of these reviews, it was found that loan funds were disbursed from the borrowers' construction fund accounts in error for reasons of inadequate documentation, duplication of previously claimed expenditures or claims for expenses not covered by REA financing. These disallowances totaled $69.2 million. REA is interested not only in the effectiveness of the methods of recording and controlling borrowers' assets, liabilities, and operations, but also in the validity of the resulting reports. Reliable reports aid management's control of operations, planning, forecasting, cash flow projections, loan security, and program appraisal. REA accountants are also responsible for advising borrowers in the development, establishment, and proper maintenance of acceptable public utility accounting records systems. These areas of responsibility are carried out primarily at the field level by the field accounting and auditing staff with supervision and technical assistance provided by the Washington office. However, the Washington Staff does have a limited responsibility in conducting LFA's in general, but has primary responsibility in conducting LFA's of generation and transmission (G&T) cooperative and telephone holding company borrowers.

REA accountants are also responsible for establishing and maintaining relationships with borrower CPA's through contacts and visits to review their audit working papers. The purpose of such visits are to place as much reliance as possible on the work of the CPA in the REA accountants' performance of LFA's.

Through the review of annual CPA audit reports of borrowers' accounting records, the Washington headquarters accounting staff brings significant disclosures and comments made in the reviews to the attention of appropriate Agency officials. These reviews also enable the accounting staff to emphasize to the borrowers that the actions recommended by the CPA and/or REA field accountants should be taken to correct weaknesses and deficiencies in borrower accounting and reporting.

In addition, the Technical Accounting and Auditing Staff (TAAS) in Washington reviews and evaluates CPA's working papers which support audit reports of REA borrowers to determine CPA compliance with REA audit requirements. Following a review, which is performed on a selective basis, the CPA is provided with a comprehensive report of REA's evaluation of the working papers. If the review indicates the need, a follow-up visit with the CPA is scheduled. This program has been quite successful in increasing compliance with REA audit requirements and in a minority of instances has alerted us to problem areas concerning CPA audits.

TAAS provides accounting advice and guidance to the REA staff, REA borrowers, CPA firms and others as necessary. The guidance provided concerns complex, and at times unique, accounting problems and issues occurring in the electric and telephone utility industries. Accounting assistance is also provided regarding interpretations of statements issued by the Financial Accounting Standards Board and Federal and state regulatory commissions. The technical accounting advice and guidance assures the maintenance of uniform accounting standards among borrowers.

During fiscal year 1985 the TAAS conducted six REA-CPA Seminars for 695 CPA's, regulatory commissions and borrower personnel. The purposes of these seminars were to discuss REA's audit policies, utility depreciation and current technical electric and telephone accounting matters. A discussion of Peer Review was given at each Seminar by CPAs who have conducted Peer Reviews, have received Peer Reviews for their firms, and who strongly recommend Peer Reviews for all CPA's. The Peer Review provides assurance that the firm has an appropriate quality control system for its accounting and auditing practice and that it is complying with that system. The Seminars have been used to improve communications between the CPA's and REA in our overall program of increased reliance on the CPA in the private sector.

Community Development - As grass-roots organizations, rural electric and telephone systems financed by REA have always had an impact on the economic development of the areas in which they are located. Over the years they have provided leadership in getting support for community development activities, and have helped launch thousands of commercial, industrial and community facilities projects in their service areas.

Locating financial and technical assistance is one of the primary ways in which rural electric and telephone systems assist the rural community. Commonly sought information relates to financing available for community facilities such as recreation, water systems, public buildings, and sewage treatment plants, as well as information on business and industrial development. Rural housing and health facilities also are of great concern to rural persons and their development is encouraged and assisted by REA's borrowers. REA borrowers have assisted these projects by arranging financing and providing marketing and managerial assistance. They have also made meeting space available, and provided typing and clerical support. A recent REA survey indicates that during 1984, REA borrowers voluntarily helped 817 local community groups with 4,233 community service-type projects. An additional 1,567 job-related projects culminated in the creation of 39,032 jobs in rural communities.

Insurance Requirements - REA borrowers are required to meet the insurance requirements set forth in their mortgage and loan contracts. REA assists its borrowers in meeting these requirements and provides risk management services for evaluating individual insurance proposals designed to provide for the individual borrower's requirements and protection.

Labor Relations - In representing the Government as mortgagee and in furthering the objectives of the Rural Electrification Act, REA is concerned that its 2,000 active borrowers, employing nearly 86,000 workers, adhere to sound labor management policies. REA provides advice to its borrowers to assist them in maintaining compliance with applicable Federal, state, and local laws and regulations. Data relating to employment practices and current wage developments is also available to these employers. The technical and economic information provided assists borrowers' management in achieving good relationships with employees and encourages stability in the operations of REA financed electric and telephone systems.

Occupational Safety - REA encourages its borrowers to establish comprehensive safety programs to protect employees, their customers, and the general public. As a minimum these programs should recognize and comply with the mandatory requirements established by Federal, state and local laws. REA personnel serve with national code and rulemaking bodies, as needed, to ensure that problems peculiar to rural electric and telephone systems are considered.

Civil Rights - It is the policy of the Rural Electrification Administration that no person in the United States shall, on the grounds of race, color, national origin, age, or handicap be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under the REA electric and telephone loan programs. Provisions requiring the extension of service on an area coverage basis have been in REA loan contracts since the 1940's; consequently, allegations of discrimination in the extension of service against REA borrowers are extremely rare. It is also REA's policy that employment opportunities created by construction work involving Federal financial assistance through REA loans are made equally available to all qualified persons, without regard to age, race, color, national origin, religion, sex, or handicap.

REA encourages its borrowers to actively involve minority group members in their programs and activities and has developed guidelines which borrowers may use to help increase participation. Minority members participate in REA-financed programs through: (1) obtaining electric and telephone service, (2) employment, (3) attendance at annual meetings, (4) membership on committees and advisory bodies, and (5) membership on cooperatives' boards of directors.

In fiscal year 1985, REA continued to achieve good results in promoting patronage of minority business enterprises by REA borrowers and in assisting the borrowers to develop training and employment opportunities for minorities and women. Also, REA continued its efforts to broaden outreach with minority organizations and institutions by working cooperatively with USDA agencies to strengthen and expand the capacity of historically black colleges and universities to serve the national interest through quality education.

During fiscal year 1985 REA received, processed, and analyzed civil rights compliance and participation reports submitted by 914 electric borrowers and 922 telephone borrowers. In addition, the REA Civil Rights Staff completed modified civil rights compliance reviews of a total of 105 electric and telephone borrowers in the field. Additionally, the General Field Representatives of REA conducted 229 preaward reviews and 399 post award reviews.

REA civil rights guidelines (REA Bulletin 20-19:320-19, REA Staff Instruction 20-19:320-19, REA Bulletin 20-15:320-15, and REA Staff Instruction 20-18:320-18) are continuing to be revised and codified. Also, REA is proceeding to promote, with good results, its REA Civil Rights Development Programs for cooperatives and telephone companies. This voluntary initiative is a national effort and provides the means for REA borrowers not only to comply with Title VI and related civil rights requirements, but for strengthening the borrowers' equal opportunity posture as well. Evidence now available in REA indicates that this new program initiative is acceptable to REA borrowers and that it is stimulating borrowers to greater achievements in the important areas of civil rights and equal opportunity. At the close of fiscal year 1985, a total of 236 electric borrowers had adopted the program, and a total of 74 telephone borrowers had adopted the program.

Management Improvement Efforts - REA management is continuously striving to ensure the security of the $65.7 billion in financing provided to over 2,000 Electric and Telephone borrowers since the inception of the program. Additionally REA provides engineering and management assistance to its borrowers. These entail auditing, accounting and management responsibilities with automated data processing (ADP) supports.

In the past few years, REA has made significant strides in the advancement of information technology. REA's ADP system has advanced from a "batch", fragmented and antiquated system to an integrated set of systems and facilities providing information on an agencywide basis.

REA is currently automating the process by which it reviews and processes borrower-submitted requisitions for the release of their funds; formerly a series of time-consuming and duplicative manual functions were used. The application of data processing technology to this function will have a fourfold benefit:

a. Automation will shorten the processing time of requisitions and will standardize the requisition procedures throughout the agency.

b. Automation will provide management immediate access to the status of any or all requisitions.

c. Automation will permit more efficient utilization of staff resources.

d. Use of the computer will eliminate the task of manually checking arithmetic calculations.

During the year REA continued to enhance its existing Borrower Information System to expedite the processing of electric and telephone loans and advances. This system currently provides complete status of loan applications, approved loans, and the most current three years of each borrower's operating reports, Borrower Statistical Profiles, and Annual Statistical Reports. Enhancements currently being developed include borrower directory information, enhanced loan statistics, unadvanced fund reporting, task tracking, and a computer-aided feasibility study.

Internal Management Controls - REA has taken a number of steps to improve its internal control process during the past 12 months, as part of the Internal Control Program (OMB Circ. A-123). The most significant of these efforts was the development of an internal control infrastructure to provide the vehicle necessary to identify and act upon internal control matters.

REA Staff Instruction 641-2, Management Controls, outlines responsibilities for all levels of management throughout the agency, as well as establishing the Management Controls Review Council and the Management Controls Advisory Group as the central system for identifying and correcting internal controls issues in REA.

All levels of management in REA are currently being provided with in-depth formal training in the area of internal management controls.

Training - REA is developing employees through new training programs. These programs give REA a source from which to draw and fill managerial positions as REA senior level employees reach retirement age. Two programs have been implemented, the Management Development Program and the Middle Management Development Program. These programs, combined with supervisory training and specific managerial courses, will strengthen the management of REA.

The Management Development Program identifies employees in REA who occupy managerial positions and those who have the potential for successful performance in these positions, and provides training and planned developmental activities to meet their individual needs for career progression. Six employees have completed the Management Development Program. In addition to on-the-job projects, such as in-depth studies of REA programs, each employee received intensive training on management issues during two-week seminars.

The Middle Management Development Program was developed to identify high potential employees at the GS-9 through 12 levels and to provide training and developmental experiences that will prepare them for future positions of increased responsibility, primarily first-level supervisory positions.

ELECTRIC PROGRAM

Borrowers' Progress and Financial Development - As of December 31, 1984, REA had provided financing to a total of 1,106 rural electric borrowers in 46 States, Puerto Rico, and the Virgin Islands. Nine hundred and ninety-three of these borrowers had loans outstanding to REA as of the end of 1984 and were providing electric service to 10,811,208 consumers over 2,056,737 miles of line, and employing 56,327 full-time employees. Of the total 993 active borrowers, 930 were engaged primarily in operating distribution systems while 63 were engaged in operating generation and transmission systems. During fiscal year 1985, borrowers received REA and non-REA financing to add 255,012 new consumers, 16,517 miles of line and 59,300 KW of new generating capacity.

Since 1948, the typical (median) rural electric distribution borrower has more than doubled the number of miles of line operated and more than tripled the number of consumers served. As of December 31, 1984, the typical electric distribution borrower had 1,883 miles of line and 7,427 consumers. As an illustration of size diversity, 71 borrowers had fewer than 2,000 consumers and 32 had more than 35,000 consumers.

Distribution borrowers as a whole showed strong financial improvement. The composite Times Interest Earned Ratio, a critical measure of financial strength, increased from 2.60 to 2.78, the highest ratio since 1977. Net margins from distribution operations reached an all-time high of $769 million. Power Supply borrowers, on a composite basis, performed well financially. There are, however, individual power supply cases involving substantial investment where problems resulting from causes such as oversupply, increasing construction cost and cancellation of construction are not resolved.

The following schedule provides a percentage distribution of kilowatt-hours (kWh) sold, revenue, and consumers by type reported by REA borrowers operating distribution systems for calendar year 1984.

Type of Consumer	kWh Sold	Revenue	Consumers
Residential, Farm and Non-Farm	60.6	64.0%	90.4%
Commercial and Industrial, Small	18.2	19.1	7.6
Commercial and Industrial, Large	15.8	11.2	0.1
Other	5.4	5.7	1.9
Total	100.0%	100.0%	100.0%

Borrower Equity - As of December 31, 1984, the composite net worth of electric borrowers was $7,407.2 million or 14.5 percent of total assets, compared with $1,670 million or 27.0 percent, in 1970. Distribution borrowers had a composite net worth of $6,136.5 million or 33.6 percent, as of December 31, 1984, compared with $1,636.6 million or 34.3 percent in 1970 and 31.6 percent in 1983.

Electric Rates - During calendar year 1984, 184 REA electric distribution borrowers reported retail rate changes in addition to automatic changes in net rates because of purchased power cost changes and other cost flow-throughs. The changes included 172 with estimated annual increases of $135,220,459, and 22 with an estimated annual decease of $9,423,044. Purchased power cost changes reflect the additional cost imposed on power suppliers because of the extremely capital intensive supply facilities that are constructed to meet increasing consumer requirements and increases in costs associated with energy sources. Total revenue per kWh for farm and residential consumers increased only 3.79% compared to 8.7% in 1983 and 12.8% in 1982.

Power Supply - Fiscal year 1985 continued to be a period of re-evaluation in the bulk power expansion plans for many borrowers much as fiscal year 1984 was. Many factors are involved in this reassessment. The increasing cost of power in conjunction with borrower conservation methods resulted in a lower rate of borrower load growth, causing many borrowers to halt or delay construction plans. Also during the past decade the initial costs of coal-fired power plants had tripled. New environmental laws required flue gas desulphurization and other costly plant additions, all causing construction costs to escalate; in addition, uncertainty caused delays which stretched out the plant completion times resulting in interest costs during construction becoming a major cost item. Furthermore, during this decade oil costs increased drastically, coal costs nearly quadrupled, and gas was being withdrawn as a utility boiler fuel in plant use to save more for home heating and cogeneration. As power costs, interest rates, and retail rates were rising, the economic pressures to conserve energy greatly changed load growth characteristics, making obsolete earlier studies which had called for the building of numerous additional generating facilities.

As a result, some REA borrowers have experienced and are continuing to experience difficulties in completing generation projects.

REA is working with borrowers and other participants in projects, on a case-by-case basis, to develop financing packages that will allow completion of those plants that are economically viable. The restructurings of financial terms is not and should not be construed as "bailouts," and do not set a precedent for additional REA involvement in other projects.

Prior to each advance of funds, REA makes a finding that the particular project continues to satisfy the following criteria:

(a) the borrower continues to expect an adequate market for the power to be generated by the project; and

(b) the project will provide the most cost effective source of incremental power available to the cooperative.

In fiscal year 1985, REA guaranteed a loan to Allegheny Electric Cooperative for $41,500,000 for the design and construction of the 20.3 MW Raystown hydroelectric plant. The Kansas Electric Power Cooperative of Topeka, Kansas, received a loan guarantee of $10 million for additional costs for its 69 MW share of the Wolf Creek nuclear plant. A new borrower, the Alaska Electric Generation and Transmission Cooperative, received a loan guarantee of $18,120,000 for the Soldatna gas turbine.

During the year, the Fermi nuclear plant obtained permission from the Nuclear Regulatory Commission to load fuel. Wolverine Power Supply Cooperative in Michigan owns 187 MW of this plant. The River Bend nuclear plant was also granted permission to load fuel. The Cajun Electric Power Cooperative owns 280 MW of this plant.

Several plants were declared commercial during fiscal year 1985, as detailed below:

BORROWER	PROJECT NAME	MW	FUEL	STATE
Allegheny Electric	Susquehanna #2	105	Nuclear	PA
South Mississippi	Grand Gulf #1	125	Nuclear	MS
North Carolina Elec	Catawba	644	Nuclear	NC
Saluda River Elec	Catawba	215	Nuclear	SC
Kansas Electric	Wolf Creek	69	Nuclear	KS
Vermont Elec G&T	North Hartland	4	Hydro	VT
Washington Electric	Wrightsville	1.025	Hydro	VT
Plains Elec G&T	Escalante	215	Coal	NM
Seminole Electric	Seminole #2	600	Coal	FL
Colorado-Ute Elec	Craig #3	447	Coal	CO
Arkansas Electric	Independence	245	Coal	AR
Northeast Texas	Pirkey	75	Coal	TX

Supplemental Resources

With the exception of hydroelectric power, development of renewable supplemental electric generating sources has been slow. While research and development activities are currently underway within the industry and some prototype facilities involving wind, solar, geothermal, tidal, biomass, and chemical fuel cells have been constructed, full scale commercialization lies several years in the future. A number of borrowers have expressed interest in these renewable resources; however, no developmental funding proposals are currently on file with REA.

Hydroelectric power generation, on the other hand, is a well established renewable generating resource of long standing. As explained above, a guarantee was provided to Allegheny Electric Cooperative for the Raystown hydroelectric project during fiscal year 1985. Construction is expected to start on this plant in fiscal year 1986.

Two hydroelectric plants were declared commercial in fiscal year 1985. The 4.0 MW North Hartland plant in Windsor, Vermont, which is owned by the Vermont Electric G&T Cooperative, and the 1.025 MW Wrightsville plant in Washington, Vermont, owned by Washington Electric Cooperative.

Additionally, the Federal Energy Regulatory Commission has issued licenses to REA borrowers authorizing construction of nine hydro projects at existing dams which involves the installation of 360 MW of new generating capacity. These hydro projects represent potential borrower funding needs, but as of this date, loan applications have not been filed with REA. However, a lien accommodation has been requested for one project.

The following small hydroelectric projects were under construction by REA borrowers during fiscal year 1985. REA funding assistance was provided in prior fiscal years.

Borrower	Project Name	MW	Stream	County	State
French Broad Electric Coop	Capitola	3.0	French Broad River	Madison	NC
Broad River Rural Electric Coop	Cherokee Falls	3.5	Broad River	Cherokee	SC
Oglethorpe Power Corporation	Tallassee Shoals	1.9	Middle Oconee River	Clark & Jackson	GA
Oglethorpe Power Corporation	Whitewater	0.5	Whitewater Creek	Macon	GA

Also, construction is underway to rehabilitate Alabama Electric Cooperative's existing Gantt-Point A hydro project located on the Conecuh River in Crenshaw and Covington Counties, Alabama. The rehabilitation work will add one megawatt of new capacity to the existing plant.

Environment - A critical function of REA is to provide guidance to its borrowers so they can satisfy their environmental responsibilities and yet meet the demand for new, improved and/or expanded electric and telephone facilities. The implementation of new and modified regulations, both Federal and State, has required that REA adjust its own procedures to the changing situation.

During fiscal year 1985, REA continued to develop and review strategies to streamline the environmental review process under the National Environmental Policy Act (NEPA) and other laws and regulations. REA's amended NEPA procedures, promulgated in fiscal year 1984, have continued to work well in streamlining REA's environmental review process, eliminating needless paperwork and reducing delay while maintaining strong protection of environmental values. At present, REA is cooperating with the Advisory Council on Historic Preservation in developing a memoranda of agreement on more streamlined and less costly cultural resource review of proposed utility overhead and underground lines. The formulation of guidelines to assist borrowers and REA staff in their environmental activities and preparation of regulations to comply with new and revised Federal laws and regulations are ongoing. To assist REA borrowers and their consultants in preparing environmental input documents, REA conducted 10 workshops/seminars during the year for their benefit.

In order to encourage the active participation of other Federal agencies in the environmental review of projects being considered for REA financing and to comply with Council on Environmental Quality (CEQ) regulations, REA has convened interagency meetings and site inspections with other Federal agencies. During fiscal year 1985, REA held three interagency meetings and inspected seven generation plant, transmission corridor and other facility sites with other Federal agencies. REA also conducted a total of four public scoping meetings.

Due to the slowdown in growth of electrical usage and the recent completion of many large generating facilities, there has been a sharp reduction of new generation planned for the near term. Consequently, during fiscal year 1985, no final Environmental Impact Statements (EIS's) were issued. One supplemental EIS was prepared. During this same period, there was one generation project with a capacity of 600 MW, together with their associated transmission facilities of about 390 miles and mining operations, under environmental review and processing in REA. In addition, two transmission projects involving 190 miles of line were still under review. The generation project will require an EIS. There is a possibility that EIS's will be issued for the transmission projects.

During fiscal year 1985, REA completed an environmental review of one coal-fired electric generation project in which an REA borrower was involved. While other agencies such as the Federal Energy Regulatory Commission have the major responsibility with respect to the preparation of the EIS, REA was deeply involved in the environmental review of such proposals. The generation project involves a total of 1,600 MW of power and 410 miles of high voltage transmission line. In addition, there were two major transmission projects totalling 66 miles of line in which REA is still cooperating in the preparation of EIS's.

Fiscal year 1985 saw substantial activity in the construction or upgrading of medium to low-voltage transmission lines and substations (69 kV to 161 kV), short high voltage lines and small-scale power generation for which detailed investigations of environmental impacts were required. REA procedures required the preparation of an Environmental Assessment and a finding of no significant impact with respect to environmental issues before each financing assistance package is approved. In the past year, a total of 14 projects involving 277 miles of transmission line, 9 substations and 141 MW of electric generation were approved by REA. Another six projects involving 34 miles of transmission line and 35 MW of electric generation were under environmental review and processing.

REA borrowers were involved in the construction of approximately 24,000 miles of underground and overhead distribution lines. Although formal environmental documentation by REA was not required for these distribution lines, each project was reviewed for its environmental impact. REA borrowers were required to provide input data and evidence of consultation with concerned agencies to insure appropriate protection was afforded to wetlands, floodplains, endangered species, cultural resources, farmland and other sensitive environmental factors. During the year, over one thousand environmental submissions from REA borrowers were reviewed for potential impacts. Financing assistance or other approval was not granted unless the environmental consequences were determined to be acceptable. In many cases, line rerouting and other mitigation were required to be incorporated into the project.

REA continued to play an active role in supplying information and comments to other Federal agencies during the preparation of new regulations and in review of the EIS's proposed or issued by other Federal agencies. During the year REA provided input into U.S. Department of Agriculture responses concerning proposed environmentally-related regulations and EIS's which could affect REA programs. REA also actively participated in USDA and inter-Departmental environmental work groups, task forces, and committees.

Energy Utilization - Electric utilities conduct programs generically referred to as load management to improve the efficiency of their systems. The objective is to alter the pattern of electricity use to make the most economic use of generation, transmission and distribution systems. Effective load management can also shift fuel dependency from limited to abundant energy sources, lower reserve requirements on generation and transmission capacity, and improve the reliability of service to essential loads. Load management is particularly attractive because of its potential for conserving capital needed to provide for new production and distribution plants. REA encourages the rural electric systems to plan and initiate load management programs to reduce the need for expensive new power supply facilities. By smoothing the system loads, expensive imported fuel can be saved while using more abundant domestic fuel in base load generators. Load management programs include consumer education efforts which urge members to use less energy during high cost peak demand hours, promotion of more efficient air conditioners, heating systems, and other appliances, cooperative scheduling of irrigation systems to reduce peak demand, and positive load control of water heaters and air conditioners by the electric system. REA makes loans for load control equipment after reviewing the technology and cost benefit relationship for each system. To date, REA electric borrowers have invested nearly $100 million on positive load control systems. Many borrowers are developing active marketing programs aimed at gaining off-peak sales and other methods for making most efficient use of system facilities.

Energy Management and Control Systems - Four basic categories of real-time control systems are commonly used by REA electric system borrowers for operations and control of generation, transmission, and distribution facilities. They include:

- Supervisory Control and Data Acquisition (SCADA)
- SCADA with Automatic Generation Control
- Energy Management and Control
- In-Plant or Direct Digital Control

With the implementation of these systems, system dispatchers are able to monitor continuously all of the important conditions in the power system grid to maintain security and economic operations. The unprecedented expansion in these areas, in conjunction with the increasing demands for power system security, reliability, and economic operation have emphasized the need for continued participation between REA staff members and borrowers to insure that the systems being built are consistent with the goals of providing reliable, effective, and economic service to the consumer.

Management Assistance - REA continues to help borrowers develop better management practices with the ultimate goal of reducing the need for Government assistance. Analytical tools such as the Distribution Expense Comparison Study and the Distribution Borrower Statistical Profile are prepared and distributed each year to all distribution borrowers to assist them in analyzing their operations. REA now includes a Plant Investment Analysis on the Expense Comparison Study. This analysis compares the actual investment in plant with the "typical" or "expected" plant investment for systems with similar characteristics. REA and its borrowers can use this tool to identify problems with abnormal investment in plant. The merger model allows REA and borrowers to estimate the financial effects of possible consolidation of electric systems. The Power Supply Statistical Profile, similar to the Borrower Statistical Profile, is prepared and distributed to generation and transmission borrowers. REA reviews and improves each of the above studies on a continuing basis and produces an Exception Report to identify variances calling for close attention.

Computer-assisted financial forecasting is now available to all distribution borrowers through various data processing centers. More than 90 percent of these borrowers are now using this system to produce reports which are not only more useful in planning but also helpful in reducing both borrower and REA staff time and effort. REA personnel continue to assist data centers and borrowers by explaining how the forecasting system can be used to achieve their financial planning purposes and can be re-programmed to reflect necessary policy changes. In addition to detailed financial data, the computer forecast provides an "English language" summary to assist boards of directors in their analysis and planning functions.

Rate Assistance - The REA staff continues to work with electric borrowers on important rate developments. Substantial assistance was provided to assist electric borrowers in complying with Public Utility Regulatory Policy Act (PURPA) Sections 201 and 210, Cogeneration and Small Power Production. Emphasis on improving rate structures and equitable allocation among classes was continued, with increasingly beneficial results. Research was conducted on capacity utilization and a paper was published on marketing and rate design and the benefits obtainable on system economics. Increased emphasis was also placed on developing rate structures which would lead to improved financial structures for borrowers.

Frequent contacts and liaison were maintained with the Department of Energy (DOE) and the Federal Energy Regulatory Commission (FERC) to maintain REA's expertise in advising borrowers on energy policy and regulations.

For the seventh year, data for typical monthly bills for electric service, conforming to DOE's annual report, "Typical Electric Bills," have been processed. These data, along with data from each system's comparable non-borrower system were used internally and extensively by other Federal agencies. With compilation of this annual report, Federal agencies, borrowers, and the public have important and useful information readily accessible to them.

Load Forecasting - REA continues to build upon earlier work with the Oak Ridge National Laboratory in developing econometric methods for long-range forecasting of energy needs in rural areas. These techniques, along with current methods involving end-use measurements, are designed to provide valuable information concerning the true necessity and feasibility for additional electric generating capacity and the resulting increase in borrower financing needs. The Agency has also worked with the Electric Power Research Institute to develop improved techniques for forecasting for use by distribution borrowers. This information is vital to effective use of efficient energy utilization techniques. REA has developed relatively simple models for use by distribution borrowers on small computers for their own use and for their use in cooperation with the power supplier. These models are available to borrowers and data processing centers for their development and adaptation to local circumstances.

In order to assure that borrowers' use of loan funds provide for acceptable type and quality of electric systems at minimum practical cost, and with minimum oversight of system design and construction by REA, REA maintains standards and specifications for distribution line construction and for certain types of transmission line construction. Thus, for most line construction, REA is able to advance funds for construction based on the certification by the borrower's engineer that construction is in accordance with REA standards and the need for detailed review of project plans and specifications is eliminated. Through standardization, the materials and equipment that are suitable for use on rural electric systems are available at a reasonable cost. The standardization program has been responsible for economies in construction, operation, and maintenance of rural electric systems while assuring dependable service at affordable rates. Therefore, loan security is provided with a minimum of REA oversight.

In keeping with the general REA objective of turning over more responsibility to borrowers as they mature, REA has proposed to eliminate from listing in REA Bulletin 43-5, "List of Materials Acceptable for Use on Systems of REA Electrification Borrowers," timber treating plants and timber inspection agencies. Under the proposal, REA places the responsibility for assuring that the timber products they purchase, and the treatment thereof, comply with the appropriate specifications.

REA continues to be an important contributor to several standards of the American National Standards Institute (ANSI), including ANSI C2, National Electrical Safety Code (NESC). The NESC is sponsored by the Institute of Electrical and Electronics Engineers. REA continues to maintain representation on these code panels in order to safeguard the interests of the REA programs and of the borrowers in the areas of construction costs, safety, and avoidance of liability and to help lessen borrowers' reliance on REA by providing a consensus code that is adequate for their needs. The NESC is enforced by most governing bodies and REA for the construction of new lines and substations, and its provisions are generally used as minimum standards in court cases.

Other national standards groups with direct REA participation include the American Wood Preservers Association, Society of Engineers, and American Society of Testing and Materials.

Corrosion - REA is continuing to promote technical self sufficiency of borrower personnel in combating corrosion problems on underground distribution systems. REA borrowers report significant corrosion of the tinned copper neutral wires that are concentrically wound around underground power cable. The neutral wires are part of the required electric system's current return path and provide a measure of safety in case of accidental dig-in. Underground cable is installed in environments that require materials resistant to deterioration if it is to survive as long as overhead distribution equipment. Early failures and excessive maintenance costs on underground distribution systems are causing concern throughout the industry, and are of particular concern to electric cooperatives with considerable amounts of underground distribution facilities. Because of continuing environmental concerns relating to use of overhead facilities, utilities install ever increasing amounts of underground facilities.

In addition to assistance provided individually to REA borrowers, REA has been active in the following areas:

- Participation on several national corrosion technical committees involved in corrosion protection, allowing REA to keep abreast of current industry-wide thinking for the benefit of the REA program.
- Participation on the program committee of the Appalachian Underground Corrosion Short Course held each year at West Virginia University and attended by borrower representatives. This enables REA to direct private industry resources to the efforts of solving borrowers' corrosion problems.
- Evaluate specialized materials for use in corrosion control (i.e., sacrificial anodes and rectifiers) for listing on REA's approved materials list. Recommendations are made to manufacturers to improve materials in this process, and to get their input as to a better solution to the problem.

New Managers Conference - The REA staff developed and presented a four day conference for new managers of electric borrower systems. In this conference borrower managers were introduced to all facets of REA operations, what is expected of borrowers, and the assistance that can be obtained from the agency. Critical regulations and procedures that could effect better borrower management coordination with REA were explained and discussed in detail for common understanding. This conference, which has been held annually over the past several years, has developed into a very useful tool for introducing new borrower managers to the REA staff and has proven to be of considerable benefit to both the managers and the REA staff.

Electric Consumer Information - The increasing cost of electric service has resulted in a high level of consumer sensitivity to the electric supply. Efforts have been stepped up by REA to emphasize to borrowers' management that considerable effort needs to be put forth to inform the consuming public of what goes in to their electricity rates, what causes them to increase, and what can be done to help hold costs down. This effort must include clear substantive discussions directly with the consumer, along with written information regarding present and future cost levels and what specific cost influences are responsible for present and anticipated cost levels. It has become clear that in cases where this type of effort is practical there is significantly better consumer acceptance of any resultant cost increases.

Loan Activity - During fiscal year 1985, 169 insured electrification loans were approved totalling $562 million. There were also four commitments approved to guarantee loans for electrification borrowers by non-REA sources totalling $74.6 million.

Purpose of Loans Approved - During fiscal year 1985, insured loans amounted to $528.9 million for distribution borrowers and $33.1 million for power supply borrowers. The loan guarantee commitments were made for power supply purposes, including $5 million to distribution borrowers.

Supplemental Financing - During fiscal year 1985, non-REA sources of financing provided REA power supply borrowers with more than $2.17 billion, of which approximately $1.82 billion was for facilities. As a result of these financings approximately $.79 billion of previously approved REA guaranteed loans has or will be rescinded and approximately $.38 billion of guaranteed loans has been repaid to the Government ahead of schedule.

Additionally, during the same period REA power supply borrowers entered into leveraged lease transactions covering more than $1.18 billion in assets. These transactions resulted in approximately $.75 billion repayments ahead of schedule and $.07 billion for rescission.

Fund Advances and Construction Progress

	1984	1985
Advances: (Insured Loans)(fiscal year).........	$592,202,230	$661,212,175
Consumers connected (calendar year estimate) ..	294,600	335,800
Miles energized (calendar year estimate).......	25,300	27,100
MW generating capacity financed (fiscal year) .	6	59

NOTE: Unadvanced insured electrification loan funds aggregated $1.65 billion as of September 30, 1985.

Cumulative Payments

	Fiscal Year	
	1984	1985
Payments:		
Principal..................................	$5,376,826,419	$5,704,796,106
Interest	4,240,412,294	4,658,449,043
Payments ahead of schedule	50,675,999	55,492,754
Payments overdue more than 30 days	--	98,254,035
Interest and principal lost on two foreclosures	44,478	44,478

Progress of Electrification Program - The cumulative figures presented in the following Tables I and II show the progress that has been made in the electrification program since its inception.

TABLE NO. I - ELECTRIFICATION LOANS
(Cumulative Figures)

Date	Total Insured Loans All Purposes a/	Long-Term Supplemental Loans b/	Loan Guarantee Commitments	Construction Authorized By Total Loans to Date: Miles of Line	Construction Authorized By Total Loans to Date: Consumers to be Served
1936 - 1963	$5,020,163,286			1,555,087	5,762,534
June 30, 1964	5,280,871,573			1,572,769	5,929,349
June 30, 1965	5,631,572,196			1,590,628	6,081,976
June 30, 1966	5,942,226,055			1,611,242	6,439,948
June 30, 1967	6,292,885,281			1,630,939	6,439,948
June 30, 1968	6,642,684,316	$ 62,000,000		1,772,866	6,637,276
June 30, 1969	6,985,363,485	62,000,000		1,660,552	6,737,301
June 30, 1970	7,329,418,562	62,000,000		1,681,825	6,908,440
June 30, 1971	7,690,458,056	74,774,000		1,699,683	7,113,261
June 30, 1972	8,128,458,056	243,170,000		1,772,866	7,412,054
June 30, 1973	8,746,398,057	350,408,100		1,756,889	7,858,579
June 30, 1974	9,364,746,057	884,373,000	$ 974,433,000	1,789,464	8,297,824
June 30, 1975	10,065,663,198	1,049,343,500	2,130,776,000	1,826,837	8,691,541
June 30, 1976	10,814,505,146	1,247,750,000	3,422,329,000	1,857,872	8,992,150
Sept. 30, 1977	11,843,244,646	1,526,088,308	7,811,694,000	1,889,603 c/	9,363,546 c/
Sept. 30, 1978	12,695,852,805	1,771,115,232	10,120,812,000	1,935,184	9,878,264
Sept. 30, 1979	13,743,204,822	2,059,865,340	15,550,489,000	1,971,249	10,310,990
Sept. 30, 1980	14,667,668,821	2,425,257,643	20,794,423,000	2,004,249	10,743,122
Sept. 30, 1981	15,517,468,822	2,930,690,643	25,787,839,000	2,036,370	11,124,452
Sept. 30, 1982	16,367,468,822	3,227,509,036	30,803,239,470	2,060,917	11,416,909
Sept. 30, 1983	17,210,757,822	4,323,016,968	33,033,014,812	2,094,917	11,672,909
Sept. 30, 1984	18,052,907,819	4,979,133,896	33,645,164,820	2,104,455	12,120,855
Sept. 30, 1985	18,607,067,832	7,114,632,970	32,372,593,434	2,120,972	12,375,867

a/ Comprised of REA direct and insured loans.
b/ Includes commitments for long-term financing from all sources other than REA direct and insured loan and loan guarantee programs.
c/ Reflects June 30 statistics.

TABLE NO. II - ELECTRIFICATION CONSTRUCTION
(Cumulative Figures)

Date	Loan Funds Advanced to Borrowers REA Loans a/	Under Guarantee a/	Construction Completed b/ d/		
			Total Miles Energized	Total Consumers Served	Total mWh Sales c/ (Annual) (Thousands)
1936 - 1963	$4,205,858,366		1,526,812	5,237,912	35,357,255
1964	4,451,822,854		1,547,143	5,386,088	39,836,854
1965	4,751,612,288		1,566,772	5,541,478	42,668,054
1966	5,030,390,048		1,586,502	5,652,844	48,439,056
1967	5,339,134,905		1,606,497	5,806,017	52,880,144
1968	5,734,077,563		1,627,445	5,986,140	58,303,933
1969	6,101,157,248		1,650,240	6,196,967	66,421,021
1970	6,463,530,118		1,676,001	6,442,332	76,009,289
1971	6,875,490,883		1,700,348	6,747,698	84,282,836
1972	7,293,974,951		1,732,545	7,076,249	93,534,163
1973	7,748,574,076		1,766,701	7,457,123	100,688,298
1974	8,428,574,076		1,797,525	7,767,813	105,690,807
1975	4,140,430,790	$ 249,237,000	1,827,896	8,017,654	112,669,814
1976	9,813,780,284	902,438,000	1,857,434	8,311,779	124,004,376
1977	10,689,455,578	2,287,307,219	1,890,173	8,630,818	131,547,776
1978	11,425,761,950	4,053,295,219	1,917,859	8,962,540	141,908,005
1979	12,332,895,522	5,741,699,219	1,950,394	9,275,086	150,055,226
1980	13,300,561,317	8,178,223,219	1,978,758	9,523,552	160,243,316
1981	14,223,624,965	12,148,594,761	2,009,504	9,844,319	167,687,587
1982	15,033,054,352	16,972,645,166	2,036,416	10,096,448	172,731,820
1983	15,706,706,260	19,285,946,383	2,057,702	10,555,401	187,193,706
1984	16,298,908,490	21,637,515,383	2,082,093	10,836,358	209,063,661
1985	16,960,120,666	23,679,423,763	2,109,000 est.	11,172,000 est.	214,528,000 est.

a/ Fiscal Year - Includes advances on REA direct and insured loans.
b/ Calendar Year.
c/ Excludes energy sales by one REA borrower to another.
d/ Data includes financing from all sources.

TELEPHONE PROGRAM

Upgrading Rural Telephone Service - More than 4.7 million subscribers were receiving service on REA-financed systems as of December 31, 1984. Of this total 88.3 percent were receiving one-party service, an increase from 86.4 percent on December 31, 1983. Continued progress is being made toward single party service in rural communities as shown below:

Percent of Subscribers by Grade of Service
End of Calendar Year

Service	1980	1981	1982	1983	1984
1-party	79.4%	81.9%	84.2%	86.4%	88.3%
2-party	3.2	2.8	2.3	1.9	1.6
4-party	15.7	14.1	12.6	11.2	9.5
5-party (or more)	1.7	1.2	0.9	0.5	0.6

Upgrading service has resulted in an increase in long distance calling. This, of course, has increased telephone revenues. Average toll revenue and access charge revenue per subscriber increased from $370.89 in 1983, to $402.24 in 1984, while the average local service revenue per subscriber increased from $186.39 to $191.71.

Financial Development of Telephone Borrowers - Total operating revenues reported by REA telephone borrowers in calendar year 1984 amounted to $2.9 billion compared with $2.6 billion in 1983. Toll service revenues amounted to 65.6 percent of this total or about $1.9 billion. This increase is a continuation of the trend in the past few years which has been due to upgrading service to subscribers, increased ownership of toll lines by borrowers, and improved toll settlement contracts. However, this trend can be expected to reverse itself due to changes in toll settlement procedures, in both the state and interstate jurisdictions.

Following the Administration's efforts to reduce borrowers' dependence on REA financing, the agency has encouraged borrowers to seek outside financing for plant additions. As part of this effort the agency has continued to eliminate REA financing for headquarters facilities, terminal equipment and company vehicles and work equipment. This initially stemmed from the Federal Communication Commission's (FCC) proposal to deregulate new terminal equipment installed after March 1, 1981. Since it will eventually be the subscribers' responsibility, rather than the borrowers' to provide the appropriate telephone equipment, loan funds will no longer be needed for these purposes. The investment of loan funds in station apparatus (terminal equipment) during 1984 represented 5.4 percent of the total plant in service. The savings in REA loan funds will be substantial.

BORROWER NET WORTH

Borrowers' net worth increased by $301 million during 1984, and now represents 28.5 percent of total assets. As can be seen in the following table, the total net worth has increased by about 257 percent during the last 10 years and the average net worth to assets ratio has also improved substantially.

NET WORTH

Year	No. of Borrowers Reporting	Reported Net Worth (in 000's)	Average Net Worth for all Borrowers (in 000's)	Net Worth as % Total Assets
1974	851	$ 723,916	$ 850	22.5%
1976	876	903,728	1,032	23.3
1981	949	1,781,941	1,877	25.3
1982	950	2,050,894	2,158	26.3
1983	950	2,283,957	2,407	27.3
1984	946	2,585,408	2,733	28.5

Borrower Plant Investment - At the end of 1984, telephone plant-in-service totaled $9.8 billion, an increase of $701 million for the year. This represents an investment per subscriber of $2,056, a 5.1 percent increase over the $1,957 per subscriber reported in 1983.

Management Assistance - REA provides assistance to borrowers in the areas of loans, management, revenue requirements and other matters in an effort to make the most efficient use of loan funds and to preserve security of outstanding loans. Special emphasis has been placed on reducing borrowers' dependence on Government loan funds through more efficient management practices and the development of new sources of revenue.

During 1985, REA devoted considerable time and effort to analyzing proposed changes in regulations being considered by both the FCC and by state regulatory bodies. These changes have the potential to seriously impact rural telephone companies and cooperatives and the subscribers they serve. Formal comments on several important issues were submitted to the FCC. REA has also closely followed structural changes taking place in the industry as a result of the infusion of competition accelerated by the AT&T divestiture of the Bell operating companies. Other efforts in the regulatory arena include attempts to promote allocation of electromagnetic spectrum to allow implementation of technologies which have the potential to reduce the cost and increase the quality and variety of telecommunication services in rural areas. Both terrestrial and satellite radio services have been explored. Technical issues, such as the new Uniform System of Accounts and various toll separations changes, which will have a substantial financial impact on borrowers, have also been analyzed and commented upon.

Many telephone borrowers are diversifying into related telecommunications areas. The many structural changes in the industry have provided both the necessity and the opportunity for borrowers to seriously explore entering the long distance telecommunications market through resale operations, provision of access service, or construction of facilities based regional networks. Other popular areas of diversification are cable television, satellite television receive-only earth stations, wholesaling or retailing cellular mobile radio and electronic equipment . REA has reviewed numerous proposals, pro forma financial statements, market studies and contracts in order to ensure that feasibility and loan security are preserved or enhanced. Other management functions include extensive financial analysis of borrower finances through the Borrower Management Profile (a series of ratios which provide a detailed picture of borrower operations), performing operations and maintenance studies for problem borrowers, and closely monitoring borrowers with financial conditions that could endanger loan security. Analyzing the effects of toll settlement changes on both the state and interstate level, higher depreciation rates, the effect of the deregulation of certain parts of operations such as station equipment and inside wiring are all part of REA's telecommunications management function.

Reviews of borrowers' operations are conducted on an ongoing basis to assure that REA loans are secure. REA prepares and distributes the Borrower Management Profile which is updated annually so that the Washington office and the field staff can monitor the borrowers' operations.

REA spends a significant amount of time keeping the Washington and field staffs abreast of regulatory changes in the telecommunications industry. To accomplish this purpose, information is provided to the field staff through presentations given at the Telecommunications Engineering and Management Seminars and the National Conference. In addition, REA has participated in many seminars sponsored by various national, regional,and state associations to assist telephone borrowers with their operations. In addition, textual information is frequently circulated to both the Washington and field staffs to enable them to stay up-to-date on industry changes.

Certification Program - The telephone staff is in the process of revising REA procedures for its certification program whereby telephone borrowers are able to carry out certain REA-Financed construction without being required to submit for specific approval items such as plans and specifications, engineering contracts, construction contracts, force account proposals and final close-out documents. The purpose of the proposed revision is to simplify procedures and encourage more borrowers to assume responsibility for these activities.

Telecommunications Engineering and Standards - The era of explosive technology growth and telecommunications deregulation is forcing a change in the role of the REA support staff. This support role is gradually shifting from basic standards development within REA to that of implementing national and international standards and its associated technology for telecommunications service by unique and innovative application for rural America.

In past years, REA was instrumental in generating primary standards and specifications that often led to and guided the development of unique and innovative systems, equipment and hardware for rural telecommunications service. Today, technology development is explosive. Frequently, telecommunications systems and equipment are essentially developed at the elementary integrated circuit or "chip" stage. This explosive development is targeted for the mass urban telecommunications and business markets.

REA staff support can now be more effective by following the wide array of technology developments at the laboratory and integrated circuit stage, encouraging and sometimes guiding the developed products through the field trial stage and into a stage of widespread general use for rural telecommunications service. The goal is reliable and cost effective products for rural service. Maximum influence toward this goal often results from involvement in the application of products and technology rather than the establishment of rural standards and specifications apart from the rest of the telecommunications industry. REA will continue to work closely with the telecommunications industry in developing material standards whenever possible. Increasing effort will be devoted to providing engineering and management support to ensure reliable and affordable telecommunications service in rural areas.

Some of the major activities in the engineering and construction areas undertaken during the past year within REA are as follows:

With a strong emphasis on high density leading edge technologies for telecommunications, copper telephone cables tend to become a forgotten facility. REA borrowers and other telephone companies have a large capital investment in copper telephone cables. These cables must be economically utilized for existing telecommunications services and for the emerging new digital services. For many rural areas, copper telephone cables are expected to remain the most cost effective service facility for many years.

REA is involved in the assessment of several new systems and technologies to extend the service life of copper telephone cables. Digital drop and insert systems offer the capability of terminating digital services such as high speed data anywhere along cables with digital transmission systems. On a larger centralized scale digital access and cross-connect systems provide for 64 kb/s data switching groups. These are basic tools from which future high speed digital services such as the Integrated Services Digital Network can evolve. PEA borrowers are already utilizing digital drop and insert systems and are exploring the use of other systems for digital services.

The service life of copper telephone cable is also being enchanced through the use of other new techniques and systems. These telephone cables are often already in place, and are capable of far greater service than is now being provided. Most cable pairs provide basic service to only one subscriber. With added electronic carrier systems, cable pairs can provide 24 voice circuits. Several recent techniques have been developed to double this circuit capacity over copper cable pairs. REA borrowers are using these expansion systems to extend the life of their telephone cables. New systems are being developed to further enhance the use of copper telephone cables.

Service to subscribers in sparse rural areas requires planning, innovation and patience. The REA staff continues to work with manufacturers, consulting engineers and REA borrowers on innovative techniques for economical rural subscriber service. Old techniques long discarded are given another review. Existing proven hardware is explored for innovative new uses. And, new techniques born of the high technology revolution are added to the list.

The old technology is represented by power line carrier, a technique that was briefly used by telephone companies 40 years ago and then was discarded as not feasible. Circumstances exist in rural areas that often require specialized service solutions. Power line carrier is one of those specialized service solutions presently being used by REA borrowers.

Because of the increasing high cost of wireline construction, radio is fast becoming a more viable alternative for serving subscribers out of their local switching center. However, there are no primary frequency allocations for this use. It is only permitted using a very few channels on a secondary basis to mobile services. A task force, made up of representatives of REA, U.S. Telephone Association, National Telephone Cooperative Association, National Rural Telecom Association, and Organization for the Protection and Advancement of Small Telephone Companies, has been formed to address the issue of using radio for the subscriber loop and to develop an industry position on ways and means of mitigating the problem of not being able to effectively use this facility. This Rural Radio Task Force is preparing a proposal which it will submit to the FCC for its consideration.

A new subscriber radio system using digital technology will undergo a field trial beginning in 1986 at an REA borrower system in Kansas. Radio systems such as this and others under consideration may find increased application as a lower cost alternative for rural subscriber telephone service.

REA has been involved with the implementation of fiber optic lightwave systems into many rural telephone systems. It has supported such operations by providing basic information on lightwave products and systems as well as aiding in system designs. Field trials and observations have shown that lightwave technology can provide economical, efficient, and reliable systems in the rural environment. Repeaterless operation and large bandwidth capacity, inherent in lightwave technology, help rural telephone companies to provide better service to customers while adding flexibility for future growth.

Single mode glass fiber which provides for expanded transmission bandwidth, increased repeater spacing, easy installation and flawless performance has become the product of choice for most REA lightwave systems. A high confidence level established for multimode glass fibers as a transmission medium has carried over to single mode fibers based on proven performance in extensive field trials. The reduced cost due to volume sales and refined manufacturing procedures coupled with application advantages has resulted in exclusive use of single mode fiber optic cable in lightwave telecommunications systems within REA during 1985.

REA financed its first fiber optics field trial in 1979 for interoffice trunking application. Since then fiber optics systems have made dramatic improvements in cost, range, and capacity to where the normal practice is to seriously consider fiber optics for every new interoffice trunking application.

With these developments in mind, REA undertook a study to determine the feasibility of providing fiber optics in the subscriber loop plant. Two possible applications were considered. One was to consider fiber optics for serving subscribers who are located long distances from their central offices. It was thought that the savings in potential field electronics and long amounts of copper cable might offset some of the cost of the fiber optics system. Secondly, consideration was given to high density applications with large numbers of subscribers close to the central office where large copper cables could be eliminated.

The results of the study were surprising in that fiber optics in the feeder portion of the subscriber loop plant while not yet cost effective is much closer than had been expected. The costs suggest that there may soon be some applications for fiber optics in the subscriber loop plant on a field trial basis. Various applications will continue to be studied and REA will encourage implementation of lightwave sytems where they can be economically justified.

In the Fall of 1984 REA completed a sample rural toll traffic survey and distributed it to interested parties on behalf of the Rural Coalition. Only Class 4 switches were targeted because it was assumed that they would be the most likely candidates to initially justify an earth station and toll trunk linkage to a possible rural satellite.

This traffic survey was delivered to four companies that agreed to provide budgetary cost and design data for a rural satellite toll network to the Rural Coalition. Western Union dropped out for internal company reasons. However, in February 1985 Hughes Communications, GTE Spacenet, and Ford Aerospace presented their proposals to the Rural Coalition.

A committee of presidents and general managers selected by the three associations (NTCA, OPASTCO, and NRETA) and REA met in New Orleans to evaluate the proposals. It was the judgment of this committee that none of the three proposals would be able to haul rural toll traffic at sufficiently low cost to justify recommending the establishment of a rural satellite system and network. The committee recommended that rural companies presently concentrate on developing terrestrial regional toll systems. Several means were suggested such as private intercompany microwave or fiber optic trunking networks with feature group B termination at access tandems. Whereas, the group could not recommend a total rural satellite system they did agree individual companies might find a satellite system economical.

REA has been collecting data on plant depreciation rates for various classes of equipment. The object was to provide data on which to revise the rates used for engineering purposes in the Telecommunications Engineering and Construction Manual, Title 218. We discovered that for the first time the five largest holding companies have submitted account-by-account data to USTA and General Telephone developed a computer program to summarize the data. We requested a copy of the printout and from it extracted data covering REA financed companies. REA used the data and made similar printouts account by account and created area-by-area and national composite tables. We identified 18 accounts that are financed by REA and created a composite plant account. This REA composite plant study indicates that the rates currently being used vary from 2.31 percent to 22.11 percent depending on the particular account with the overall average being 6.10 percent.

On April 17, 1985, the Administrator announced the initiation of the 1985 Subscriber Loop Plant Study. This study will be similar to both of REA's previous studies except in two significant aspects. The 1985 study is to be done by our field personnel using REA test equipment. Previous studies were done by each of approximately 400 companies whose loops were selected. Using our own field staff of 49 persons and their equipment should result in more consistent and uniform data. The other major difference is that we have eliminated all subjective testing with individual subscribers. We will not ask their opinions on the quality of transmission. Rather all our transmission tests will be made with electronic test equipment.

Since 1969 great changes have taken place in our subscriber loop plant. The subscriber base has more than doubled from just over 2 million to almost 5 million by the end of 1983. The number of exchanges has increased 35 percent to 5,900 from 4,400. The 1,000 loops were selected only from exchanges within the contiguous United States. This was done to be consistent with the previous studies so that direct comparisons could be made in the resultant data.

Also excluded were the Continental Telephone exchanges that are not financed by REA. These adjustments created a sampling universe of 3,008,257 subscribers so that each sampled loop statistically represents 3,008 subscribers. The number of loops to be tested by Area is shown in the following table.

NUMBER OF LOOPS SELECTED

	1969	1984	
Southeast	240	250	+10
Northeast	161	244	+83
Southwest	217	214	-3
North Central	262	207	-55
Western	120	85	-35
	1,000	1,000	

It can be seen from the table that there has been a significant shift in relative subscriber size by area. The total number of subscribers grew at different rates for each area so therefore we sampled a different number of loops in each area. For example, the Northeast Area grew from 381,116 to 1,306,638 subscribers, an increase of 243 percent; whereas, the North Central Area grew at a slower rate of 83 percent from 514,613 to 940,407 subscribers. Because of the constant number of loops to be tested, the faster growing areas are assigned more tests at the expense of the slower growing areas.

The composition of the loop makeup should be dramatically different as a result of changes in loop design techniques and new types of plant equipment. We expect to see more fine gauge cable and more electronic equipment. We revised the loop questionnaire to reflect these expectations. We are asking for information on items such as network interface devices, digital carrier, digital switching, and remote switches, that did not exist in 1969. We are asking for new information on items such as protection, grounding, fire equipment, equal access, and vertical services that are important to know in the 1980's. With the test equipment now available for this survey, we will be able to collect transmission data unavailable to us before, such as circuit noise, power influence, and loop current. In summary, we will have additional and more accurate data from this survey than we collected in previous surveys.

The information gathered in this study will be invaluable to borrowers, consulting engineers, and equipment manufacturers. It will become evident what the composition of the present subscriber loop plant is, what its communications capability and capacity is, and what changes will be required to meet the future needs of rural subscribers in the 1990's. We will be able to fill in the gaps in our knowledge by creating models, charts, graphs, and tables.

The subscriber loop plant study should produce results and benefits to rural telecommunications for years to come. We can quickly list some of the major benefits that we know will result as follows:

- Training of personnel involved in engineering and management in the rural telephone industry
- Physical Plant Composition
- Measured and Calculated Transmission Characteristics
- Measured Noise and Crosstalk Performance
- Subscriber Quality of Transmission and Service Evaluation
- Economic Analysis
- Application of New Products

However, the greatest benefits will come from the discovery of information that we do not know about and from its use in the future to develop new products and techniques not even thought of today.

REA borrowers are installing class 5 digital switching equipment at the rate of about two per week to replace obsolete equipment as well as for new exchanges. Unit prices remain attractive as a result of increased competition. Two more domestic switching equipment manufacturers should complete their tests and gain acceptance in 1986 in the end office digital switching market pioneered in the REA program.

Now that a few years' experience has been accumulated, REA has finished the first phase of an analysis of the performance of the digital switching systems in service. Printed Circuit Board (PCB) failure reports from a substantial portion of the digital systems in service in REA systems have been analyzed. The PCB failure rate design objective of 0.5 percent per month is being achieved on an annual basis. Manufacturers are improving the self diagnostic capabilities of digital switching system equipment.

A new specification for a very small digital switching system has been prepared and should appear in the Federal Register shortly. There are several thousand very small central offices with obsolete equipment which can benefit from using the new specification. A specification for pair gain device switches has been updated and is ready to serve in reducing costs of cable plant.

A comprehensive field performance evaluation of shield bonding connectors has been initiated and is scheduled for completion in October 1986. Bonding connectors crimped on coated aluminum shields is of special concern to REA because the loss of shield continuity either to ground or to adjacent cable shields could result in cable damage or noisy circuits. Manufacturers of shield bonding connectors are assisting in these field tests.

REA continues its program of actively working with private sector standards developers to create industry standards which can be adopted in total or in part by REA in lieu of standards developed by REA. For example, REA is spearheading the effort initiated by the Insulated Cable Engineers Association (ICEA) to create industry-wide procurement documents for telecommunications wire and cable products. Not only must technical differences between various users, as well as those between users and manufacturers, be resolved, but a mechanism for creating and revising these standards in accordance with established procedures of the American National Standards Institute (ANSI) must be created. The finished documents should permit the entire industry to enjoy increased economies of scale and to quickly and efficiently share data on problems and new developments in this field. Ultimately a number of REA specifications can be withdrawn and these industry-wide documents adopted in their place.

President Reagan's National Security Telecommunications Advisory Committee (NSTAC) requested a set of baseline standards on network surge protection. REA used its membership on various standards committees to promote cooperation, reduce conflicts and effectively coordinate the development of standards. REA continues to work actively and aggressively with private sector standards developers, such as the Institute of Electrical and Electronics Engineers, the Electronic Industry Association, the Exchange Carriers Standards Association, etc., to assure the timely and effective development of standards which serve the industry in general and the interests of the REA borrowers in particular. The aforementioned activities are but a few examples of this effort.

In addition to working to develop industry standards, REA is continuing its efforts to increase borrower awareness of the importance of this work to persuade them to become more involved. The topic was discussed by REA staff at industry seminars such as the USTA Showcase and International Wire and Cable Symposium, and a continuing series of articles on standards developers prepared for the trade press by a member of the REA staff.

TELEPHONE PROGRAM STATISTICS

Through September 30, 1985, REA loans, loan guarantees, and loans from the Rural Telephone Bank totaled $7.8 billion, and the percentage of farms with telephone service increased from about 38 percent in 1949 to about 96 percent in 1984. Satisfactory rural telephone service today implies an improved grade of service from the eight-party rural concept of years ago. In keeping with subscriber demand, REA recommends four-party, flat rate rural service as the minimum standard. Because of increasing demands for one-party service in rural areas, REA continues to encourage borrowers to develop systems to meet this demand at reasonable rates.

Loan Activity - During fiscal year 1985, 74 insured loans were approved totaling $224,589,000, and 52 Rural Telephone Bank loans were approved totaling $167,773,200 and 10 loan guarantee commitments were made. Also, during the year there were 75 rescissions of prior year loans. A total of $105,158,338 was rescinded by REA telephone borrowers. This included 49 REA loans for $24,732,006, 26 RTB loans for $19,442,332, and 4 loan guarantee commitments for $60,984,000.

Fund Advances and Construction Progress

	1983	1984	1985
Advances: (fiscal year)			
REA Loans	$181,910,863	$187,833,844	$135,926,804
RTB Loans	87,230,769	90,450,549	72,675,257
Loan Guarantees	31,249,740	43,470,000	20,903,000
Route miles of line constructed or improved, net (FY LOAN EST. estimate)	15,841	10,997	12,417
Subscribers receiving new or improved service, net (FY LOAN EST.)..........	131,938	163,237	123,541

Through September 30, 1985, borrowers had received advances under the REA loan program totaling $5,998,403,452. Total REA telephone, Rural Telephone Bank loans and loans guarantee commitments approved provided for construction and improvement of 935,399 miles of line and new or improved dial service to 5,500,006 subscribers.

Cumulative Payments - REA Loans

	1983	1984	1985
Payments: (fiscal year)			
Principal (Including payments ahead of schedule)	$1,034,426,650	$1,134,903,174	$1,242,194,614
Interest	805,577,678	892,200,385	983,934,410
Payments ahead of schedule	30,331,663	37,088,373	44,063,960
Payments overdue more than 30 days..........................	353,001	36,147	20,534

PROGRESS OF REA AND RTB TELEPHONE PROGRAMS

The cumulative figures presented in the following Tables I and II show the progress that has been made in the REA and RTB telephone programs since their inception.

TABLE NO. I - TELEPHONE LOANS
(Cumulative Figures)

Date	Total REA Net Loans a/	Telephone Bank Net Loans	Loan Guarantee Commitments	Construction Authorized By Total Loans to Date	
				Route Miles of Line To Be Constructed or Improved	Subscribers to Receive New or Improved Service
950 - 1963	$ 990,992,987			469,805	1,859,873
une 30, 1964	1,078,444,387			492,700	1,964,601
une 30, 1965	1,167,902,734			511,956	2,043,900
une 30, 1966	1,266,041,761			519,156	2,116,895
une 30, 1967	1,380,557,341			534,200	2,202,030
une 30, 1968	1,499,674,227			545,493	2,271,874
une 30, 1969	1,623,413,120			552,927	2,364,493
une 30, 1970	1,746,578,450			564,771	2,450,421
une 30, 1971	1,870,028,433			579,233	2,543,516
une 30, 1972	2,002,536,718	$ 90,954,800		596,119	2,698,337
une 30, 1973	2,147,368,193	240,913,490		616,274	2,854,530
une 30, 1974	2,287,396,227	397,344,290		636,755	3,026,688
lune 30, 1975	2,487,335,227	557,532,080	$200,000,000	693,064	3,494,543
lune 30, 1976	2,737,299,979	737,202,830	381,615,000	742,225	3,842,606
ept. 30, 1977	3,032,569,126	923,744,623	393,873,000	768,097	4,093,482
ept. 30, 1978	3,298,965,598	1,076,923,873	391,918,000	790,669	4,318,651
ept. 30, 1979	3,548,961,362	1,207,676,173	311,918,000	815,975	4,497,419
ept. 30, 1980	3,793,445,662	1,367,234,097	417,903,000	835,464	4,672,647
ept. 30, 1981	4,032,971,525	1,520,511,682	469,946,000	859,457	4,899,384
ept. 30, 1982	4,272,115,929	1,694,587,539	629,335,000	888,000	5,091,000
ept. 30, 1983	4,517,363,859	1,860,593,433	673,647,000	905,000	5,219,000
ept. 30, 1984	4,738,327,507	1,993,109,001	740,438,000	924,137	5,407,097
ept. 30, 1985	4,938,184,501	2,141,439,869	679,454,000	935,399	5,500,096

/ Comprised of REA direct and insured loans.

TABLE NO. II - TELEPHONE CONSTRUCTION
(Cumulative figures)

Date	REA Loan Funds Advanced To Borrowers a/	Telephone Bank Loan Funds Advanced To Borrowers b/	Loan Funds Advanced To Borrowers Under Guarantee	Construction Completed c/ d/ Route Miles of line Constructed or Improved	Construction Completed c/ d/ Subscribers Receiving New or improved Service
1950 - 1963	$ 792,465,840			414,271	1,523,406
1964	876,695,138			431,475	1,626,590
1965	957,487,449			460,141	1,726,359
1966	1,039,691,323			482,005	1,825,861
1967	1,142,941,570			499,179	1,944,334
1968	1,242,998,913			533,559	2,067,025
1969	1,348,878,422			554,190	2,184,575
1970	1,484,279,069			547,322	2,334,511
1971	1,621,729,749			568,051	2,428,868
1972	1,754,097,487	$ 587,923		583,922	2,574,814
1973	1,876,472,536	45,642,259		603,747	2,725,030
1974	1,998,530,418	144,350,892		627,483	2,919,113
1975	2,141,897,321	274,228,758	$ 5,528,683	652,884	3,045,292
1976	2,284,760,323	387,163,911	45,588,544	683,648	3,283,223
1977	2,492,089,204	486,044,526	95,045,815	726,271	3,599,069
1978	2,637,142,419	628,341,716	138,360,625	748,361	3,877,060
1979	2,835,240,540	768,881,783	184,760,170	771,951	4,072,709
1980	3,074,345,739	958,826,018	246,829,859	797,944	4,262,359
1981	3,355,041,322	1,107,425,390	283,524,456	804,982	4,374,005
1982	3,593,616,042	1,219,657,517	348,210,000	830,948	4,545,576
1983	3,775,526,906	1,313,060,353	379,459,740	860,088	4,823,051
1984	3,963,360,749	1,403,510,902	422,929,740	846,989	4,628,778
1985	4,099,287,553	1,476,186,159	443,832,740	868,989	4,746,909

a/ Fiscal Year - Includes advances on REA direct and insured loans.
b/ Fiscal Year.
c/ Calendar Year 1985 not yet available.
d/ Excludes some borrowers who have received REA loans, RTB loans, and REA loan guarantee commitments totaling less than 20 percent of total assets.

RURAL ELECTRIFICATION ADMINISTRATION

The estimates include appropriation language for this item as follows (deleted matter enclosed in brackets; new material underscored):

Rural Telephone Bank

> The Rural Telephone Bank is hereby authorized to make such expenditures,
> within the limits of funds and borrowing authority available to such
> corporation in accord with law, and to make such contracts and
> commitments without regard to fiscal year limitations as provided by
> Section 104 of the Government Corporation Control Act, as amended, as may
> be necessary in carrying out its authorized programs for the current
> 1 fiscal year. During [1986] 1987, and within the resources and authority
> available, gross obligations for the principal amount of direct loans
> 2 shall be not [less than $185,000,000 nor] more than [$220,000,000]
> $139,000,000.

The first change updates the fiscal year designation of the limitation on new loans for this program established as a part of the Federal Credit Controls.

The second change eliminates the range for the loan program and establishes the maximum loan program at $139,000,000.

DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

RURAL TELEPHONE BANK

	Estimated Obligations	Other Authorizations (Borrowing Authority) a/
Appropriation Act, 1986	$262,471,000	$109,463
Budget Estimate, 1987 ...	217,212,000	56,357
Change	-45,259,000	-53,106

a/ Reflects estimated borrowing authority encumbered.

SUMMARY OF INCREASES AND DECREASES
(On basis of obligations)

	1986 Estimate	Program Changes	1987 Estimate
Operating Cost:			
Administrative expenses	$ 150,000	--	$ 150,000
Interest expenses......	77,183,000	+$741,000	77,924,000
Dividends................	138,000	--	138,000
Loan authority...........	185,000,000 a/	-46,000,000	139,000,000
Total available......	262,471,000	-45,259,000	217,212,000

a/ Loan levels authorized are between $185 million and $220 million in FY 1986.

PROJECT STATEMENT
(On basis of obligations)

	1985 Actual	1986 Estimate	Increase or Decrease	1987 Estimated
1. Operating Costs:				
(a) Administrative Expense.........	$ 27,483	$ 150,000	--	$ 150,000
(b) Interest expense.	74,451,831	77,183,000	+$741,000	77,924,000
2. Dividends..........	138,000	138,000	--	138,000
3. Loans..............	167,773,200	185,000,000	-46,000,000	139,000,000
Total obligations......	242,390,514	262,471,000	-45,259,000	217,212,000

EXPLANATION OF RURAL TELEPHONE BANK PROGRAM

Public Law 92-12, approved May 7, 1971, amended the Rural Electrification Act of 1936, as amended, to establish the Rural Telephone Bank as a supplemental source of financing the Rural Telephone Program. The act, as amended, permits the Secretary of the Treasury to purchase the Bank's debentures. This minimizes REA borrowing costs and helps avoid cash-flow problems associated with obtaining funds on the money market. Public Law 93-32, approved May 11, 1973, further amended the Act to increase the Bank's borrowing authority from eight to twenty times its paid-in-capital and retained earnings. The Bank charges a single interest rate based on it's average cost of money, but not less than five percent per annum. The rate of interest charged on new loans during the first quarter of Fiscal Year 1986 was 9.0 percent.

Borrowing Authority

Equity capital of the Bank consists of Class A stock purchased by the United States; Class B and C stock purchased by Bank borrowers, organizations eligible to become borrowers, and organizations controlled by borrowers; and retained earnings. The maximum borrowing authority of the Bank is limited to 20 times its paid-in-capital and retained earnings. Fiscal Year 1986 total borrowing authority available to the Bank is estimated at $12.5 billion, comprised of $1.3 billion in new borrowing authority and $11.2 billion in unobligated authority brought forward. In 1987, available borrowing authority is calculated at $13.1 billion, consisting of $.7 billion in new borrowing authority and $12.4 billion in authority carried over from prior years.

Highlights of Operation

The Rural Telephone Bank made 52 loans totaling $167,773,200 in fiscal year 1985 at a weighted average interest rate of 9.03 percent. Since its inception the Bank has made loans totaling $2,141,400,000 to 572 borrowers, at a weighted average interest rate of 8.29 percent.

The Bank's net income from October 1, 1984, to September 30, 1985, amounted to $27,908,507, after making provision for a return of $7,965,794 on Class A stock held by the government, a balance of $19,942,713 was available for patronage refunds, dividends, and retained earnings. Assets of the Bank totaled $1,410,400,053 as of September 30, 1985, and liabilities $777,529,900. The Bank has invested some of the proceeds from the sale of Class B and C stock in United States securities; interest on these investments amounted to $73,651.

Program Statistics
(Dollars in thousands)

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Cumulative net loans..................	$2,141,440	$2,326,440	$2,465,440
Cumulative loan funds, advanced......	$1,476,094	$1,566,094	$1,656,094
Unadvanced loan funds, end of year...	$ 665,346	$ 760,346	$ 809,346
Cumulative principal repaid..........	$ 93,439	$ 111,091	$ 130,428
Cumulative interest paid.............	$ 645,048	$ 754,839	$ 867,385
Number of borrowers..................	572	595	620

Application of Federal Credit Control

The 1987 language proposal contains only a maximum limitation on the amount of Bank loans.

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of $741,000 for operating costs (interest expenses) ($77,183,000 available in 1986).

Need for Change. To meet the increased cost in interest payments to Treasury by the Rural Telephone Bank.

Nature of Change. Public Law 92-324, approved June 30, 1972, amended the Rural Electrification Act of 1936, as amended, to permit the Secretary of the Treasury to purchase the Bank's debentures. In fiscal year 1985 the Bank borrowed $7.3 million from the Treasury; it is estimated that an additional $14.5 million in 1986 and $19.0 million in 1987 will be required to make advances to borrowers, a cumulative total of $792.0 million.

The following tables show budget authority obligations, and borrowing authority for the Bank.

Budget Authority, Obligations and Balances
(Dollars in thousands)

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Budget Authority:			
Borrowing Authority (P&F Schedule).....................	97,624	109,463	56,357
New Budget Authority.............	97,624	109,463	56,357
Other Funds Available............	152,733	162,008	170,398
Less: Return on Class A stock....	-7,966	-9,000	-9,543
Total budgetary resources.....	242,391	262,471	217,212
Obligations:			
Loans approved..................	167,773	185,000	139,000
Expenses and C stock dividends..	74,618	77,471	78,212
Total.........................	242,391	262,471	217,212

Borrowing Authority
(Dollars in thousands)

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Available start of year...........	10,278,942	11,246,693	12,425,728
Increase 1/....................	1,045,933	1,288,520	688,820
Encumbered.....................	-97,624	-109,463	-56,357
Recovery of Prior Obligations	19,442	--	--
Available end of year.........	11,246,693	12,425,750	13,058,191

1/ Computed in accordance with Section 407 of the Rural Electrification Act of 1936, as amended:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
A Stock.........................	30,000	30,000	--
B Stock.........................	13,121	17,621	22,121
C Stock.........................	--	--	--
Retained earnings..............	9,176	16,805	12,320
Total..........................	52,297	64,426	34,441
Statutory borrowing authority rate..............	X20	X20	X20
Maximum borrowing authority during period....................	1,045,940	1,288,520	688,820

NOTE: Totals may not add due to rounding.

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration

Number and Amount of Rural Telephone Bank Loans by States, Fiscal Year 1985

	No.	Amount
UNITED STATES	52	$167,773,200
Alabama	4	27,408,150
Alaska	3	3,356,850
Arkansas	2	1,158,150
California	1	423,150
Florida	1	3,028,200
Georgia	4	18,161,850
Idaho	1	577,500
Iowa	5	10,101,000
Louisiana	2	8,038,800
Maine	1	5,303,550
Michigan	3	16,604,700
Minnesota	1	1,043,700
Montana	1	431,550
New York	4	5,528,250
North Carolina	3	6,248,550
Oklahoma	1	1,945,650
Pennsylvania	2	20,224,050
Texas	3	5,082,000
Vermont	1	509,250
Virginia	1	3,004,050
Washington	1	5,558,700
Wisconsin	6	8,918,700
Puerto Rico	1	15,116,850

RURAL ELECTRIFICATION ADMINISTRATION

The estimates include appropriation language for this item as follows (deleted matter enclosed in brackets; new material underscored)·

Purchase of Rural Telephone Bank Capital Stock

> [For the purpose of Class A stock of the Rural Telephone Bank, $30,000,000, to remain available until expended (7 U.S.C. 901-950 (b)).]

The change proposes deletion of the language authorizing purchase of capital stock. Since no appropriation is requested in fiscal year 1987 for purchase of Class A stock, retention of language is unnecessary.

Purchase of Rural Telephone Bank Capital Stock

Appropriation Act, 1986	$30,000,000 a/
Budget Estimate, 1987	--
Decrease in Appropriation..................................	-$30,000,000

SUMMARY OF INCREASES AND DECREASES

Item of Change	1986 Estimated	Program Change	1987 Estimated
Purchase of Capital Stock	$30,000,000 a/	-$30,000,000	--

PROJECT STATEMENT
(On basis of appropriation)

Project	1985 Actual	1986 Estimated	Increase or Decrease	1987 Estimated
Purchase of Capital Stock	$ 30,000,000	$30,000,000 a/	$ 30,000,000	--

a/ A rescission of $30 million is proposed, if approved total budget authority will remain unchanged, borrowing authority will increase by a like amount.

EXPLANATION OF PROGRAM

The Rural Electrification Act of 1936, as amended, authorizes appropriations for the purchase of Class A stock in the Rural Telephone Bank by the U.S. Government. This account funds the purchase of class A stock of the Rural Telephone Bank. Since the Federal Government has already provided the $300 million in capital called for in the original statute establishing the Bank, no appropriation is requested in fiscal year 1987.

JUSTIFICATION OF DECREASE

(1) A decrease of $30,000,000 for purchase of capital stock.

Need for Change. This account funds the purchase of class A stock of the Rural Telephone Bank, providing capital to the Bank with a 2 percent rate of return. The difference between 2 percent and Treasury's rates are borne by U.S. taxpayers. The Federal Government has already provided $420 million in capital to the Bank. The funds only begin to be repaid starting in 1995. The Bank has the authority to raise funds in private credit markets on its capital base. It is authorized to borrow virtually without limitation from the U.S. Treasury.

Nature of Change. No appropriation is requested for fiscal year 1987 for the purchase of capital stock.

RURAL TELEPHONE BANK

STATUS OF PROGRAM

The Rural Telephone Bank was established May 7, 1971, when Public Law 92-12 was enacted, amending the Rural Electrification Act of 1936, as amended. The Bank supplements the REA telephone loan program in providing rural telephone systems with capital for furnishing and improving telephone service in rural areas.

Lending Activity - During Fiscal Year 1985, the Rural Telephone Bank approved 52 loans, totaling $167,773,200. From the Bank's inception in May 1971, loans to 572 borrowers have been approved, totaling $2,141,439,869, with a composite interest rate of 8.2 percent.

Sale of Stock - The government purchased $30 million of Class A stock for the Bank during fiscal year 1985, bringing the cumulative total of Class A stock purchases to $420 million. Bank borrowers purchased $2,492,513 in Class B stock during fiscal year 1985, bringing the cumulative total through September 30, 1985, to $133,949,179. Class C stock cumulative through September 30, 1985, amounted to $1,730,000.

Interest and Retained Earnings - Retained earnings and patronage capital on October 1, 1984, totaled $68,014,615. In December 1984 upon payment of dividends on Class C stock of $138,400 and the issuance of Class B stock of $10,627,947 as patronage refund, retained earnings and patronage capital were reduced by $10,766,347 to $57,248,270. During fiscal year 1985, interest income totaled $102,881,821, of which $102,808,170 was from loans and $73,651 from investments. Expenses incurred amounted to $74,973,314 for interest on funds borrowed from the U.S. Treasury, directors' fees and travel, provision for possible losses, supplies, postage and miscellaneous expenses. After deducting these costs from total income, the net income amounted to $27,908,507. After deducting the return on Class A stock of $7,965,794, patronage refund of $10,627,954 and dividends on Class C stock of $138,400, the balance of net income amounted to $9,176,359, retained earnings and patronage capital were thus increased to $77,190,974.

Management of the Rural Telephone Bank - The management of the telephone Bank is vested in a board of directors consisting of 13 members. Two of the members, the REA Administrator and the Governor of the Farm Credit Administration, are designated in the legislation establishing the Bank. Of the 11 other members, five are appointed by the President and six are elected by Bank borrowers.

General Administration - Operations of the Rural Telephone Bank are carried out by REA field and Washington employees and by employees of the Office of the General Counsel. This has enabled the Bank to hold its administrative expenses to a minimum.

The Bank has been able to apply most of the established REA policies and procedures relating to REA telephone loan planning and processing. REA engineering standards and specifications, construction requirements, management techniques, and loan policies generally apply to Bank loans.

RURAL ELECTRIFICATION ADMINISTRATION

The estimate includes appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Rural Communication Development Fund:

> To reimburse the Rural Communication Development Fund for interest subsidies and losses sustained in prior years, but not previously reimbursed, in making Community Antenna Television loans and loan guarantees under Sections 306 and 310B of the Consolidated Farm and Rural Development Act, as amended, [$1,196,000] $1,591,000.

DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

RURAL COMMUNICATION DEVELOPMENT FUND

	Estimated Obligations for Interest Expense	Appropriation
Community Antenna Television:		
Interest:		
Appropriation Act, 1986	$3,042,000	$ 1,203,000
Budget Estimate, 1987	3,176,000	1,591,000
Change	+134,000	+388,000
Adjustments in 1986		
Appropriation Act, 1986......	$3,042,000	$1,203,000
Less Pro-Rata Reduction, ... P.L. 99-190................	+7,000	-7,000
Adjusted Base for 1986......	3,049,000	1,196,000
Budget Estimate, 1987..........	3,176,000	1,591,000
Change Over Adjusted 1986......	+127,000	+ 395,000

SUMMARY OF INCREASE AND DECREASES
(On basis of authorizations)

Community Antenna Television:	1986 Estimated	Change	1987 Estimated
Interest.....................	$3,049,000	+$127,000	$3,176,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

Project	1985 Actual	1986 Estimated	Increase or Decrease	1987 Estimated
Interest Expense:	$841,000	$1,196,000	+$ 395,000	$1,591,000

An appropriation is requested in fiscal year 1987 to cover the losses of the fund in fiscal year 1985. The increase of $1,819,000 in appropriated funds represents the increase in losses in fiscal year 1985 over fiscal year 1984.

PROJECT STATEMENT
(On basis of actual or estimated obligations for interest expense)

Project	1985 Actual	1986 Estimated	Increase or Decrease	1987 Estimated
Interest expense:	$2,550,000	$3,049,000	+$127,000 (1)	$3,176,000

EXPLANATION OF PROGRAM

The 1987 Budget does not propose to fund this program since sufficient funding is available in the private sector. REA will continue to administer the program and funding will be required to cover the losses of the fund.

JUSTIFICATION OF INCREASES AND DECREASES

(1) An increase of $127,000 to cover interest expenses of the Rural Communication Development Fund ($3,049,000 estimated in 1986): Advances made to borrowers from the fund in excess of fund receipts are covered by borrowing from the Treasury. In fiscal year 1987, as a result of increased borrowing, the interest expense to the fund will increase $127,000. Interest expense of the program is estimated at $3,049,000 in fiscal year 1986, and $3,176,000 in 1987.

RURAL COMMUNICATION DEVELOPMENT FUND

STATUS OF PROGRAM

The Rural Communication Development Fund was established pursuant to Secretary's Memorandum No. 1988 approved May 22, 1979; this action transferred certain financing authorities under the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) from the Farmers Home Administration to the Rural Electrification Administration for the purpose of financing and administering community antenna television (CATV) services to facilities in rural areas.

Lending Activity - Through 1985 cumulative insured or direct loans of $25.4 million and $4.6 million in guarantee commitments are still outstanding. Principal outstanding is $20.5 million.

Program - The White House Rural Development Initiatives, issued in February 1979, announced that funding would be provided through USDA loan programs to help rural telephone systems and other eligible organizations to provide commercial television to rural residents. Since that time, it has been determined that sufficient capital is available from private sources, therefore it is more appropriate that this activity be funded from these private sources. REA administers the existing program.

RURAL ELECTRIFICATION ADMINISTRATION

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

SALARIES AND EXPENSES

> For administrative expenses to carry out the provisions of the
> Rural Electrification Act of 1936, as amended (7 U.S.C. 901-
> 950(b)), and to administer the loan and loan guarantee programs for
> Community Antenna Television facilities as authorized by the
> Consolidated Farm and Rural Development Act (7 U.S.C. 1921 - 1995)
> and for which commitments were made prior to fiscal year [1986],
> 1 1987 including not to exceed $7,000 for financial credit reports,
> funds for employment pursuant to the second sentence of section
> 706(a) of the Organic Act of 1944 (7 U.S.C. 2225), and not to
> 2 exceed [$103,000] $150,000 for employment under 5 U.S.C. 3109,
> [$30,804,000] $26,355,000.

The first change updates the fiscal year designation.

The second change increases the limitation for employment under 5 U.S.C. 3109. This change restores the funds which were proposed for rescission in FY 1986.

SALARIES AND EXPENSES

Appropriation Act, 1986	$30,990,000
Budget Estimate, 1987	26,355,000
Decrease in Appropriation	-4,635,000

Adjustments in 1986:		
Appropriation Act, 1986	$30,990,000	
Less Pro-Rata Reduction, P.L. 99-190	-186,000	
Net Appropriations	$30,804,000	
Transfer to Departmental Administration and Office of Governmental and Public Affairs for Reimbursable Activities a/	-32,000	
Adjusted base for 1986		30,772,000
Budget estimate, 1987		26,355,000
Decrease from adjusted 1986		-4,417,000

a/ A transfer of $28,000 to Departmental Administration and $4,000 to Office of Governmental and Public Affairs is to fund activities previously financed on a reimburseable basis as a direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

	1986 Estimate	Program Changes	1987 Estimate
Administration of Loan Programs	$30,772,000	-$4,417,000	$26,355,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

	1985 Actual		1986 Estimated			1987 Estimated	
Project	Amount	Staff Years	Amount	Staff Years	Decrease	Amount	Staff Years
1. Administration of rural electrification program:							
(a) Lending and Management Activities	$7,936,154	167	$8,668,000	167	-$1,245,000	$7,423,000	149
(b) Engineering Activities	7,241,039	152	7,909,000	153	-1,135,000	6,774,000	135
Total administration of electrification program	15,177,193	319	16,577,000	320	-2,380,000	14,197,000	284
2. Administration of rural telephone program:							
(a) Lending and Management Activities	7,376,839	156	8,057,000	156	-1,156,000	6,901,000	139
(b) Engineering Activities	5,619,706	118	6,138,000	118	-881,000	5,257,000	106
Total administration of telephone program	12,996,545	274	14,195,000	274	-2,037,000	12,158,000	245
Unobligated balance	2,461,565	--	--	--	--	--	
Total available or estimated	30,635,303	593	30,772,000	594	-4,417,000	26,355,000	529
Transfer to Departmental Administration	26,452	--	28,000				
Transfer to Office of Governmental & Public Affairs	2,245	--	4,000				
Total, appropriation	30,664,000	--	30,804,000				

EXPLANATION OF PROGRAM

The appropriation "Salaries and Expenses" of the Rural Electrification Administration funds the activities authorized by the Rural Electrification Act, as amended. The Act authorizes REA to provide to qualified electric and telephone organizations capital through insured loans and guarantees of loans by other lenders for electric and telephone service in rural areas comparable in reliability and quality to the service provided the rest of the nation. In support of these programs, the REA staff furnishes management and technical assistance to borrowers for the purpose of protecting the Government's loan security, to assure that construction and operation of borrowers' systems conform to approved standards, and that the electric and telephone systems continue providing reliable service on an area coverage basis. The Administration proposes to phase down funding to 50 percent of current level by 1990, consistent with proposals to phase out the credit programs by 1990. Thereafter "salaries and expenses" funds will be used to manage outstanding portfolio.

Applications, Loans, and Requisitions for Advances
(Dollars in thousands)

	Fiscal Year 1985		Estimated Fiscal Year 1986		Estimated Fiscal Year 1987	
	Number	Amount	Number	Amount	Number	Amount
Electric Program						
Applications received	213	$2,128,970	200	$1,762,029	100	$1,200,000
Insured loans approved	169	562,029	185	650,000	100	375,000
Loan guarantee commitments..........	4	74,607	8	850,000	5	225,000
Non-REA loans without guarantee a/........	193	2,135,599	100	850,000	200	600,000
Applications on hand, end of year..........	30	678,287	27	90,316	22	90,316
Advances processed (Insured Loans).....	1,430	661,212	1,500	625,000	1,000	400,000
Telephone Program b/						
Applications received -						
New borrowers........	8	32,955	9	40,000	3	18,000
Existing borrowers...	75	228,018	100	300,000	70	200,000
Insured loans approved						
New borrowers........	7	24,972	9	47,117	2	15,000
Existing borrowers...	67	199,617	70	250,000	42	45,000
RTB loans approved -						
New borrowers........	29	63,318	35	70,000	15	40,000
Existing borrowers...	23	104,455	35	115,000	30	99,000
Loan guarantee commitments..........	0	-0-	7	125,000	0	-0-
Applications on hand, completed -						
New borrowers........	4	8,433	4	1,316	5	4,316
Existing borrowers...	27	87,681	57	137,681	85	292,681
Advances processed -						
REA borrowers........	373	135,927	350	125,000	300	100,000
RTB borrowers........	138	72,675	150	90,000	150	90,000

a/ Includes concurrent non-REA loans made in conjunction with REA insured electric loans.

b/ Processing individual applications and advances to "new" borrowers requires more processing time than loans to "existing" borrowers.

JUSTIFICATION OF DECREASE

(1) An decrease of $4,417,000 for administration of rural electrification, rural telephone and community antenna television loan programs ($30,772,000 available in 1986).

Need for Change A decrease of $4,417,000 associated with a reduction in staff-years to the level necessary to administer the loan programs at the anticipated levels.

Nature of Change The budget decrease will permit the agency to continue the operation of the rural electric and telephone programs at the levels anticipated. Sufficient funds would be available to furnish the management and technical assistance to borrowers to protect the Government's loan security and to assure that all borrowers continue to provide reliable service on an area coverage basis.

United States
Department of
Agriculture

Rural
Electrification
Administration

Revised
December 1985

A Brief History of the Rural Electric and Telephone Programs

United States
Department
of Agriculture

Rural
Electrification
Administration

Washington, D.C.
20250

January 15, 1986

Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In connection with the hearings on the Fiscal Year 1987 budget proposal , we have prepared a history of the accomplishments of the Rural Electrification Administration similar to the one we prepared at your request last year.

We are pleased to submit this "Brief History of the Rural Electric and Telephone Programs" for the use of the Committee.

Sincerely,

Jack Van Mark

JACK VAN MARK
Acting Administrator

HISTORY

The Rural Electrification Administration (REA) is a credit agency of the U. S. Department of Agriculture which assists rural electric and telephone organizations in obtaining the financing required to provide electric and telephone service in rural areas. These essential services help improve the quality of life for people who live, work, or do business throughout rural America. Financial assistance may include (a) loans from REA, (b) guarantees of loans made by others, and (c) REA approval of security arrangements which permit the borrower to obtain financing from other lenders without a guarantee.

REA was first established by Executive Order 7037 on May 11, 1935, as part of a general program of unemployment relief. It soon became clear, however, that the task of extending central station electric service to rural areas required very specialized skills (engineering, management, etc.) that would be difficult to attract if REA operated under the constraints of the unemployment relief authorization. REA was given its own statutory authorization by the Rural Electrification Act of May 20, 1936. It became a part of the U. S. Department of Agriculture on July 1, 1939.

Federal support was needed to electrify rural America because most of the established utilities served high density areas and did not extend lines to farmers and other rural residents because such investments were not considered to be feasible.

When Congress established REA, its purpose was to assure that funds would be available for rural electrification. Loans were made at interest rates that fluctuated with the cost of money to the Government. It was not until 1944 that Congress established a fixed interest rate of two percent, which, at that time, was the approximate cost of money to the Government. As time went by and interest rates rose, the subsidy associated with REA loans grew. The performance of the difficult tasks involved with the initial organizing and constructing of rural electric systems was made possible by the availability of capital from REA, innovative construction techniques and the establishment of cooperatives--not by subsidized interest rates.

The purpose of REA was expanded in 1949 when REA was authorized to loan funds for telephone service in rural areas. As in the case of electricity, it became clear that rural residents would not have access to adequate and dependable telephone service unless Federal support was provided. Both the rural telephone and rural electric programs of REA have been successful in achieving their goals.

During the late 1960's and early 1970's, rural electric and telephone leaders came to realize that (a) their capital needs were growing at a very rapid rate and would very likely continue to grow, (b) it was no longer reasonable to expect the Government to meet all of their growing capital needs, and (c) they had developed sufficient financial strength to obtain a portion of their capital needs from private sources. For these reasons, supplemental sources of financing were developed for both rural electric and telephone utilities.

The National Rural Utilities Cooperative Finance Corporation (CFC) was formed in 1969 by the rural electric cooperatives. It obtains funds from the private credit markets for its loans to electric systems. As of December 31, 1984, CFC had provided more than $3.2 billion in long-term loans to its membership, which includes 947 systems. In addition to CFC, rural electric systems obtain loan funds from the Banks for Cooperatives and other private sources.

The Rural Telephone Bank (RTB) was established in 1971 by Public Law 92-12 which amended the Rural Electrification Act. It is the primary supplemental source of financing for the growing capital needs of rural telephone systems.

The Rural Telephone Bank is managed by a 13-member board of directors. The Administrator of REA serves as Governor of the Bank until conversion to private ownership, control, and operation. This will take place when 51 percent of the Class A stock issued to the United States and outstanding at any time after September 30, 1995, has been fully redeemed and retired. The Bank board holds at least four regularly scheduled meetings a year. Activities of the Bank are carried out by REA employees and the Office of the General Counsel of the U. S. Department of Agriculture.

In 1973, a major amendment to the Rural Electrification Act established the "Rural Electrification and Telephone Revolving Fund" (RETRF) for the purpose of making loans to REA electric and telephone borrowers. The amended Act established that loans to be made from the RETRF would be at a standard rate of five percent instead of the two percent rate at which REA loans had previously been made. The two percent rate was retained as a special rate for borrowers that met criteria specified in the Act. It was also available, at the Administrator's discretion, for hardship cases.

In addition to establishing the RETRF, and increasing the interest rate on REA loans, the 1973 amendment authorized REA to guarantee loans made by other lenders. Today these loan guarantees account for most of the loan funds obtained by electrification borrowers.

The 1973 Amendment to the Act states it is the policy of the Congress that "rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources."

In 1981, Congress further amended the RE Act by eliminating the special two percent interest rate on loans to rural electric and telephone systems. Such utilities now receive loans at five percent from the RETRF, as do other borrowers. Exceptions to the five percent rate may still be made at the discretion of the REA Administrator where there is a finding of hardship.

CHRONOLOGY OF LEGISLATIVE CHANGES

RURAL ELECTRIFICATION ACT OF 1936
7 U.S.C. 901-950b

1935 The Rural Electrification Administration was created by Executive Order 7037 of May 11 under authority of the Emergency Relief Appropriation Act of 1935, approved April 8, 1935, (49 Stat. 115).

1936 Statutory provision for the agency was made in the Rural Electrification Act (RE Act) of 1936, approved May 20 (49 Stat. 1363; 7 U.S. Code, Chapter 31).

1938 Title IV of the Work Relief and Public Works Appropriation Act of 1938, approved June 21 ("RE Act of 1938," 52 Stat. 818) authorized further borrowing from the Reconstruction Finance Corporation and added a requirement that borrowers from REA agree to use materials and supplies produced in the United States.

1939 REA became part of the Department of Agriculture under Reorganization Plan II, effective July 1.

1944 Title V of the Department of Agriculture Organic Act of 1944, approved September 21 (58 Stat. 739) liberalized the terms of REA loans and removed the time limitation from its lending program.

1944 On December 23, the Rural Electrification Act was further amended to authorize REA to refinance certain rural electrification obligations owed to the Tennessee Valley Authority (58 Stat. 925).

1947 The Department of Agriculture Appropriation Act, 1948, approved July 30, (61 Stat. 546) further amended the Rural Electrification Act by transferring from the Reconstruction Finance Corporation to the Secretary of the Treasury the authority to make loans to REA.

1948 On June 29, the Rural Electrification Act was again amended to authorize REA to refinance certain additional rural electrification obligations owed to the Tennessee Valley Authority (62 Stat. 1070).

1949 On October 28, the Rural Electrification Act was further amended to authorize REA to make loans for the purpose of furnishing and improving rural telephone service (63 Stat. 948).

1955 On June 15, the Rural Electrification Act was amended by revising the formula governing the allotment of electrification loan funds (69 Stat. 131).

1962 On October 23, the Rural Electrification Act was amended by broadening the definition of telephone service (76 Stat. 1140).

1971 On May 7, the Rural Electrification Act was amended to establish a Rural Telephone Account and the Rural Telephone Bank (85 Stat. 29; 7 U.S.C. 931-950b).

1972 On June 30, the Rural Electrification Act was amended to authorize the Secretary of the Treasury to purchase Telephone Bank debentures (86 Stat. 390; 7 U.S.C. 921b).

1973 On May 11, the Rural Electrification Act was amended to establish a revolving fund for insured and guaranteed loans under Title III (87 Stat. 65; 7 U.S.C. 931-940).

1975 On November 4, the Rural Electrification Act was amended to expressly authorize the assignment of REA guarantees to the extent provided in contract of guarantee, to clarify the incontestability of the Government guarantee, and to specifically require justification of budget estimates. (89 Stat. 677; 7 U.S.C. 936; 938; and 906.)

1976 On April 21, the "Fiscal Year Adjustment Act," amended the Rural Electrification Act to reflect necessary changes in laws because of the October-September fiscal year. (90 Stat. 375; 31 U.S.C. 701 note.)

1976 On October 20, the Rural Electrification Act was amended to correct unintended inequities in the interest rate criteria and to transfer the unobligated balance of the 1973 loan authorizations to the Rural Electrification and Telephone Revolving Fund, (90 Stat. 2701; 7 U.S.C. 931; 935.)

1977 On August 4, the "Department of Energy Organization Act," added section 16 to title 1, to require the Administrator when making or guaranteeing generation or transmission loans to consider general criteria published by the Secretary of Energy. (91 Stat. 608; 7 U.S.C. 916.)

1981 On August 13, the "Omnibus Reconciliation Act of 1981," amended the Rural Electrification Act: (1) to establish a five percent interest rate, with certain exceptions, for loans from the revolving fund, and (2) to require the Federal Financing Bank to make a loan under an REA guarantee if requested by a borrower with such a guarantee. (95 Stat. 379; 7 U.S.C. 935, 936.)

1981 On December 22, the "Agriculture and Food Act of 1981," amended the Rural Electrification Act to extend for another ten years the authorization for Federal stock purchase in the Rural Telephone Bank. (95 Stat. 1347; 7 U.S.C. 946.)

PUBLIC LAW 97-35—AUG. 13, 1981 95 STAT. 357

Public Law 97-35
97th Congress

An Act

To provide for reconciliation pursuant to section 301 of the first concurrent resolution on the budget for the fiscal year 1982.

Aug. 13, 1981
[H.R. 3982]

SHORT TITLE

SECTION 1. This Act may be cited as the "Omnibus Budget Reconciliation Act of 1981".

Omnibus Budget Reconciliation Act of 1981.

*****

PART 4—RURAL ELECTRIFICATION ADMINISTRATION PROGRAMS

RURAL ELECTRIFICATION ACT AMENDMENTS

SEC. 165. (a) Section 305(b) of the Rural Electrification Act of 1936 (7 U.S.C. 935(b)) is amended to read as follows:

"(b) Insured loans made under this title shall bear interest at 5 per centum per annum, except that the Administrator may make insured loans to electric or telephone borrowers at a lesser interest rate, but not less than 2 per centum per annum, if, in the Administrator's sole discretion, the Administrator finds that the borrower—

Insured loans, interest rates

"(1) has experienced extreme financial hardship; or

"(2) cannot, in accordance with generally accepted management and accounting principles and without charging rates to its customers or subscribers so high as to create a substantial disparity between such rates and the rates charged for similar service in the same or nearby areas by other suppliers, provide service consistent with the objectives of this Act.".

(b) Section 306 of the Rural Electrification Act of 1936 (7 U.S.C. 936) is amended by—

(1) inserting immediately after the second sentence the following: "With respect to guarantees issued by the Administrator under this section, on the request of the borrower of any such loan so guaranteed, the loan shall be made by the Federal Financing Bank and at a rate of interest that is not more than the rate of interest applicable to other similar loans then being made or purchased by the Bank."; and

(2) striking our "a loan insured at the standard rate" in the fourth sentence and inserting in lieu thereof "an insured loan".

(c) Section 307 of the Rural Electrification Act of 1936 (7 U.S.C. 937) is amended by striking out "a loan insured at the standard rate" and inserting in lieu thereof "an insured loan".

(d) The amendments made by subsection (a) of this section shall apply to loans the applications for which are received by the Rural Electrification Administration after July 24, 1981.

7 USC 935 note.

PUBLIC LAW 97-98—DEC. 22, 1981 95 STAT. 1213

Public Law 97-98
97th Congress

An Act

To provide price and income protection for farmers, assure consumers an abundance of food and fiber at reasonable prices, continue food assistance to low-income households, and for other purposes.

Dec. 22, 1981
[S. 884]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, with the following table of contents, may be cited as the "Agriculture and Food Act of 1981".

Agriculture and Food Act of 1981.
7 USC 1281 note.

*****

RURAL TELEPHONE BANK AMENDMENT

SEC. 1607. Section 406 of the Rural Electrification Act of 1936 (7 U.S.C. 946) is amended by—

(1) inserting in the second sentence of subsection (a) "but not later than fiscal year 1991" after "thereafter", and striking out "$300,000,000" and inserting in lieu thereof "$600,000,000"; and

(2) striking out in the first sentence of subsection (c) "September 30, 1985" and inserting in lieu thereof "September 30, 1995", and striking out "and after the amount of class A and class B stock issued totals $400,000,000,".

PROGRAM ACCOMPLISHMENTS

Extending and Improving Service

REA's programs have been very successful in extending electric and telephone service to persons in rural areas. By 1953 more than 90 percent of all farms in the U.S. had electricity; for telephone service, the 90 percent mark was passed in 1976.

Chart C-1 PERCENT OF FARMS WITH ELECTRIC AND TELEPHONE SERVICE

U.S. TOTALS

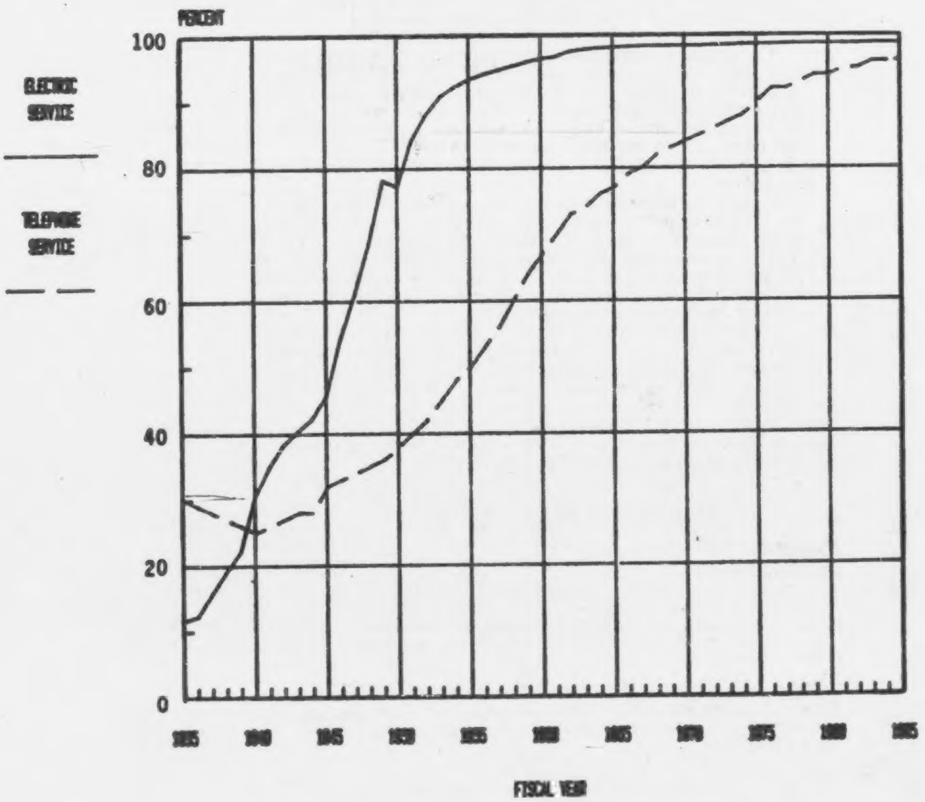


TABLE C-1 Percent of Farms with Electric and Telephone Service

Fiscal Year	Electricity	Telephone
1935	11.6%	---
1936	12.3	---
1937	15.8	---
1938	19.1	---
1939	22.1	---
1940	30.4	25%
1941	34.9	---
1942	38.3	---
1943	40.3	---
1944	42.2	---
1945	45.7	32
1946	54.3	---
1947	61.0	34
1948	68.6	35
1949	78.2	36
1950	77.2	38
1951	84.2	40
1952	88.1	42
1953	90.8	45
1954	92.3	48
1955	93.4	50
1956	94.2	53
1957	94.8	56
1958	95.4	60
1959	96.0	64
1960	96.5	67
1961	96.8	70
1962	97.6	73
1963	97.9	74
1964	98.1	76
1965	98.2	77
1966	98.3	79
1967	98.4	80
1968	98.4	82
1969	98.4	83
1970	98.4	84
1971	98.4	85
1972	98.5	86
1973	98.5	87
1974	98.6	88
1975	98.6	90
1976	98.6	92
1977	98.7	92
1978	98.7	93
1979	98.7	94
1980	98.7	94
1981	98.7	95
1982	98.7	95
1983	98.8	96
1984	98.8	96
1985	98.8	96

In addition to financing the extensions of electric and telephone service to rural areas, REA has provided credit to rural telephone utilities for system improvements that have dramatically upgraded the quality of telephone service in rural America.

Before the REA telephone program, rural telephone service was often antiquated and unreliable--even where it was available.

Today modern and reliable telephone service is available for people who live, work, or do business in rural areas. The availability of modern communications systems has improved the quality of life of rural people and has strengthened their local economies. Improvement continues as more rural residents receive single party service.

Chart C-2 GRADES OF SERVICE PROVIDED TO SUBSCRIBERS SERVICE BY REA TELEPHONE BORROWERS

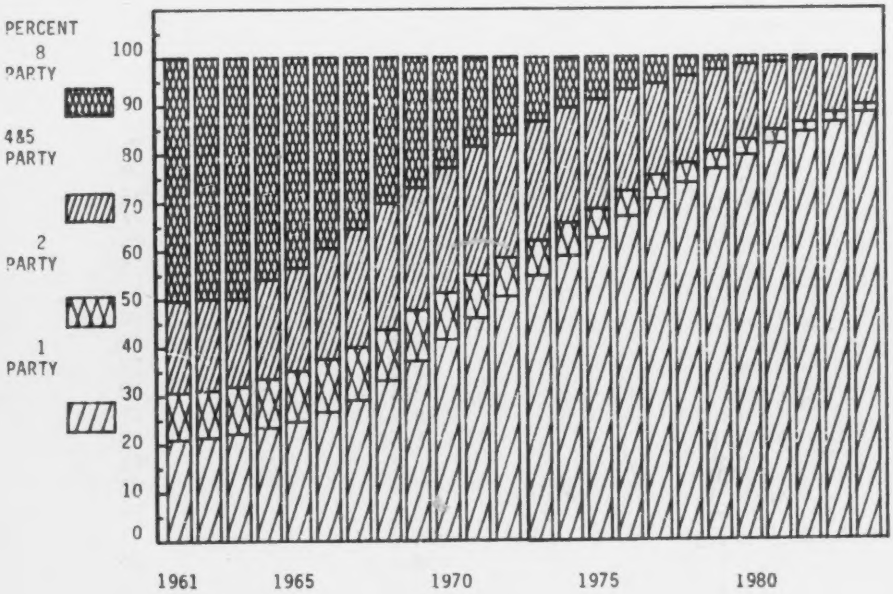


TABLE C-2 Number of Subscribers Served by REA Telephone Borrowers, by Grade of Service**

(Subscribers in thousands)

Year	One Party		Two Party		Four and Five Party		Eight Party*	
	No.	Percent	No.	Percent	No.	Percent	No.	Percent
1960	234.0	20.5	108.1	9.5	219.4	19.2	580.5	50.8
1961	269.6	20.9	124.3	9.6	246.9	19.1	650.7	50.4
1962	306.2	21.6	136.8	9.6	266.1	18.7	710.8	50.1
1963	338.2	22.2	147.6	9.7	278.4	18.3	759.2	49.8
1964	381.2	23.4	165.0	10.2	330.4	20.3	750.0	46.1
1965	428.7	24.8	182.0	10.5	362.7	21.0	752.9	43.7
1966	486.5	26.6	199.2	10.9	418.6	22.9	721.5	39.6
1967	567.1	29.2	211.8	10.9	472.4	24.3	693.0	35.6
1968	680.0	32.9	223.8	10.8	537.8	26.0	625.4	30.3
1969	810.7	37.1	227.5	10.4	560.1	25.7	586.3	26.8
1970	972.3	41.6	227.4	9.8	598.7	25.6	536.1	23.0
1971	1,117.2	46.0	217.0	8.9	642.5	26.5	452.2	18.6
1972	1,298.1	50.4	212.5	8.3	655.1	25.4	409.2	15.9
1973	1,489.9	54.7	200.4	7.3	675.2	24.8	359.5	13.2
1974	1,717.0	58.8	196.9	6.8	695.8	23.8	309.4	10.6
1975	1,909.2	62.7	183.3	6.0	685.2	22.5	267.6	8.8
1976	2,205.2	67.1	166.8	5.1	682.0	20.8	229.2	7.0
1977	2,545.6	70.7	165.2	4.6	688.7	19.1	199.6	5.6
1978	2,861.4	73.8	162.3	4.2	700.2	18.1	153.1	3.9
1979	3,122.8	76.7	153.0	3.7	691.1	17.0	104.8	2.6
1980	3,383.1	79.4	136.1	3.2	669.7	15.7	72.4	1.7
1981	3,582.6	81.9	120.9	2.7	615.6	14.1	54.9	1.3
1982	3,826.7	84.2	103.0	2.3	574.1	12.6	41.8	0.9
1983***	3,998.5	86.4	86.9	1.9	519.0	11.2	24.3	0.5
1984	4,193.2	88.3	74.7	1.6	451.0	9.5	28.0	0.6

* Includes service stations (switchers) which represent less than 1 percent of the total number of subscribers.

** To provide a more accurate representation, data for borrowers with total REA and RTB loans and REA loan guarantee commitments of less than 20 percent of their total assets have been excluded beginning in 1971.

*** Revised

Meeting the Growing Demand for Service

Rural electric and telephone systems have been able to meet an ever increasing demand for service. Each year the number of households served by REA electric and telephone borrowers has increased. In the early years this growth was mainly due to service being extended to households that had never before had electricity or telephones. More recently the growth is primarily because of the rapid population increases that have occurred in rural America--particularly in "sunbelt" and western states.

Chart C-3

NUMBER OF CONSUMERS & SUBSCRIBERS SERVED
BY REA ELECTRIC & TELEPHONE BORROWERS

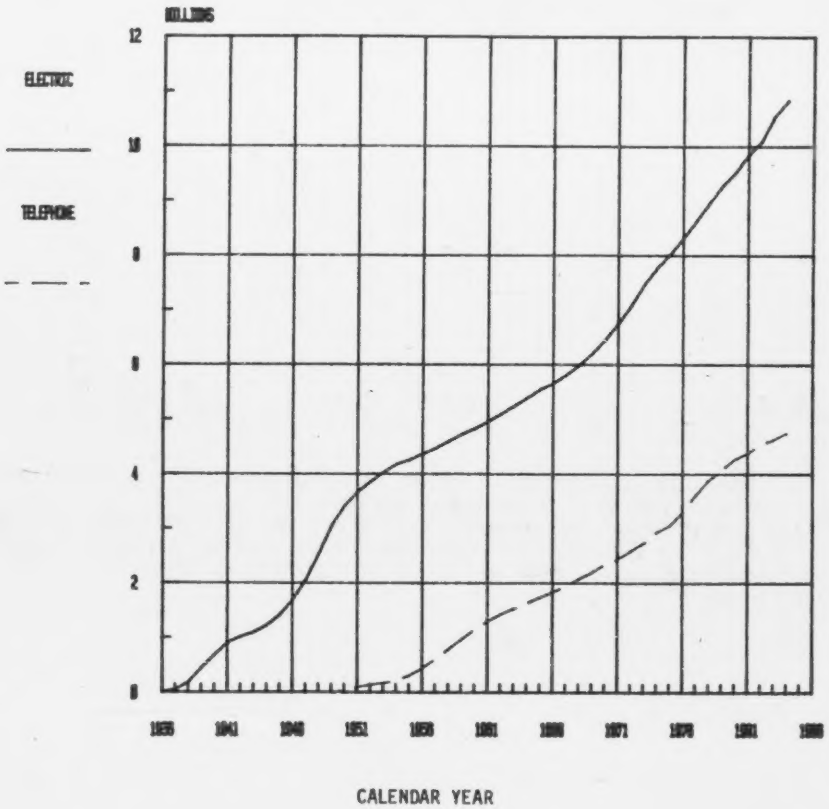


TABLE C-3

Number of Consumers and Subscribers Served by REA Electric and Telephone Borrowers (in Thousands)

Calendar Year	Electric Consumers	Telephone Subscribers
1935	---	---
1936	7.5	---
1937	43.9	---
1938	176.4	---
1939	435.6	---
1940	674.5	---
1941	902.3	---
1942	1,012.3	---
1943	1,087.8	---
1944	1,216.8	---
1945	1,408.9	---
1946	1,683.9	---
1947	2,046.1	---
1948	2,518.5	---
1949	3,040.4	---
1950	3,413.4	29.1
1951	3,666.0	86.9
1952	3,858.4	131.4
1953	4,024.8	157.4
1954	4,174.4	215.8
1955	4,251.3	296.2
1956	4,361.9	432.0
1957	4,466.4	604.7
1958	4,596.3	778.5
1959	4,721.6	958.9
1960	4,825.8	1,142.0
1961	4,955.6	1,291.5
1962	5,095.0	1,419.9
1963	5,237.9	1,523.4
1964	5,386.1	1,626.6
1965	5,541.5	1,726.4
1966	5,652.8	1,825.9
1967	5,806.0	1,944.3
1968	5,986.1	2,067.0
1969	6,197.0	2,184.6
1970	6,442.3	2,334.5
1971	6,747.7	2,428.9
1972	7,076.2	2,574.8
1973	7,457.1	2,725.0
1974	7,767.8	2,919.1
1975	8,017.7	3,045.3
1976	8,311.8	3,283.2
1977	8,630.8	3,599.1
1978	8,962.5	3,877.1
1979	9,275.1	4,072.7
1980	9,523.6	4,262.4
1981	9,844.3	4,374.9
1982	10,096.5	4,545.6
1983	10,555.4	4,628.8*
1984	10,836.4	4,746.9

*Revised

Note: The number of consumers and subscribers served is approximately equal to the number of households and business establishments served.

In the case of electricity, the strong rural demand that has historically been experienced and met by rural electric utilities can be explained in part by the fact that alternatives to electricity are not available in many nonmetropolitan areas. For this reason electricity is used for home heating and major appliances to a greater extent in nonmetro than in metro areas. In the case of new housing, electricity is being used to an increasing extent.

Chart C-4

ELECTRICITY USE FOR MAJOR APPLIANCES

METRO VS. NON-METRO

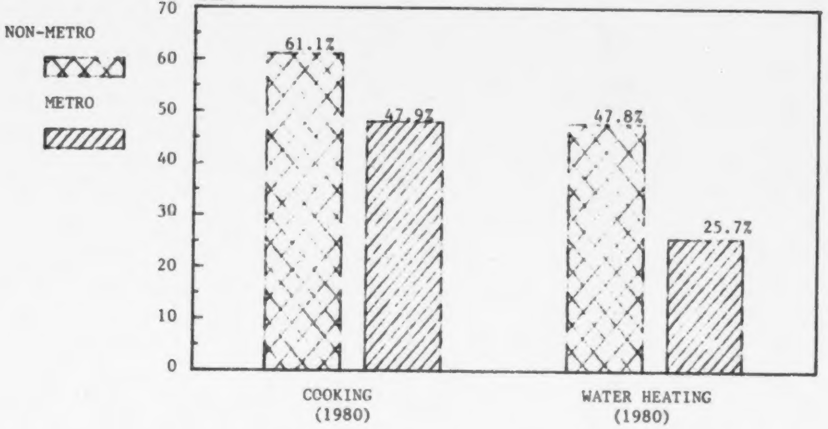
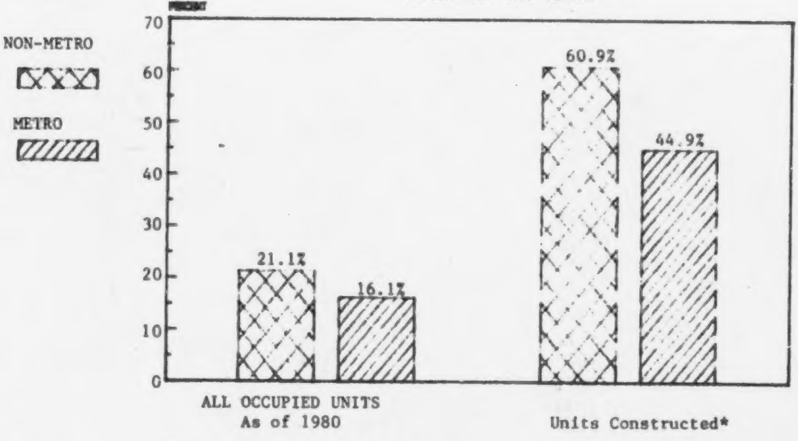


Chart C-5

ELECTRICITY USE FOR HOME HEATING

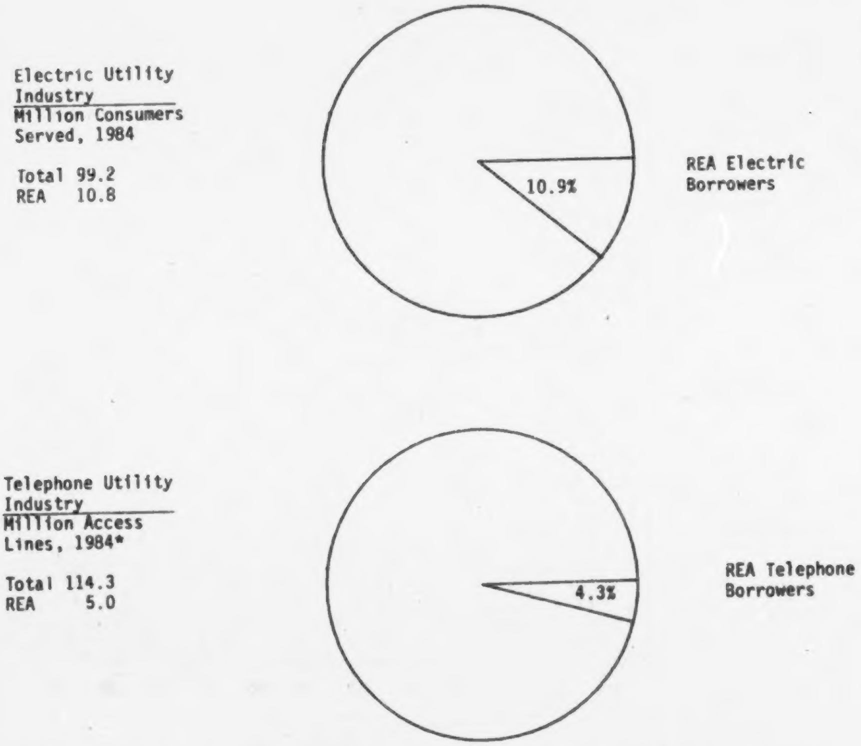
METRO VS. NON-METRO



*Privately owned single family

Today the rural electric and telephone utilities that receive financing from REA have developed into strong business organizations. Although not large when compared with many urban utilities, they are vital components of their respective industries.

Chart C-6 PERCENT OF ELECTRIC CONSUMERS AND TELEPHONE SUBSCRIBERS SERVED BY REA BORROWERS



* An access line is any line (or loop) terminating at the the telephone company central office. In prior years, estimates were based on subscribers served, however, while REA borrowers still report subscriber data, the rest of the the telephone industry does not.

LOAN STATISTICS

REA telephone borrowers have received a greater amount of their financing needs from REA loans than from other sources. These REA loans are supplemented by loans from the Rural Telephone Bank and REA guarantees of loans from other sources--mainly the Federal Financing Bank.

Chart D-1

SOURCES OF LONG-TERM FINANCING

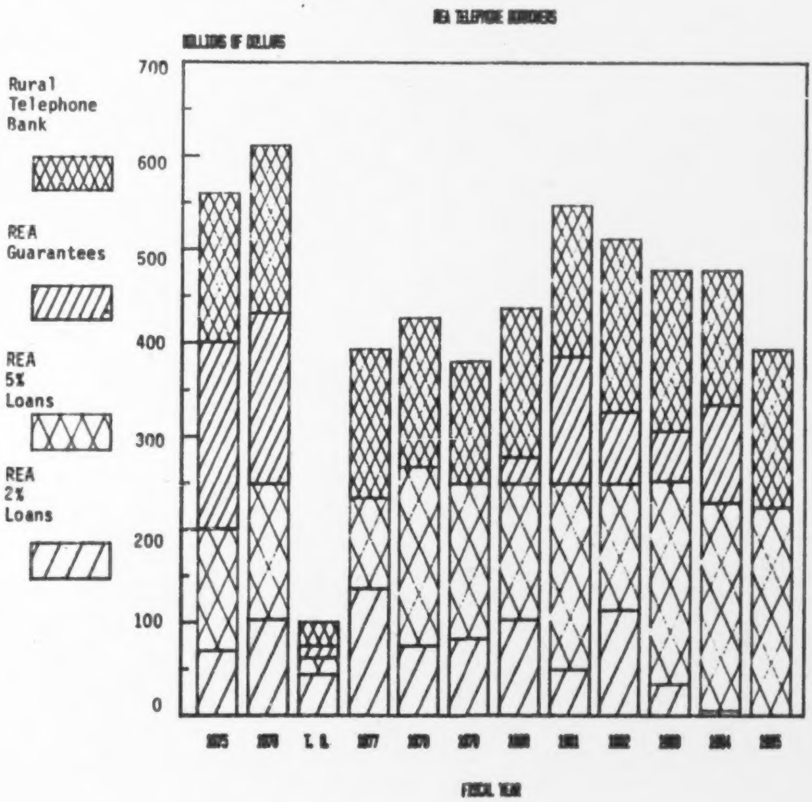


TABLE D-1

Long-Term Financing Approved by Fiscal Year REA Telephone Borrowers (in millions)

Fiscal Year	REA		Non-REA		Total
	2%	5%	REA Guarantee Commitments	Rural Telephone Bank	
1971	$125.0	---	---	---	$125.0
1972	133.7	---	---	$ 91.0	224.7
1973	90.0	$ 55.0	---	150.0	295.0
1974	55.2	84.6	---	163.0	303.0
1975	70.0	129.9	$200.0	160.2	560.1
1976	103.8	146.3	181.6	180.1	612.8
TQ	43.1	19.4	12.3	26.5	101.2
1977	136.5	96.7	---	160.3	393.6
1978	74.7	191.9	---	159.2	425.8
1979	81.6	168.3	---	130.8	380.7
1980	103.2	146.9	27.4	160.0	437.5
1981	49.7	200.1	136.4	159.9	546.1
1982	113.3	136.0	77.0	184.8	511.1
1983	33.1	217.6	54.0	171.6	476.3
1984	5.8	222.8	105.1	143.0	476.7
1985	---	224.6	---	167.8	392.4

Until the 1973 amendment to the Rural Electrification Act, virtually all financing to REA electric borrowers was supplied by direct REA loans at an interest rate of two percent. Beginning in 1973 the amount of financing received by rural electric systems increased greatly and most of this financing has been approved by non-REA sources, primarily the Federal Financing Bank (FFB), with an REA guarantee, at FFB's market rate of interest. During Fiscal Year 1985, more than three-fourths of electric borrowers' financing needs were supplied by non-government sources.

Chart D-2 SOURCES OF LONG-TERM FINANCING

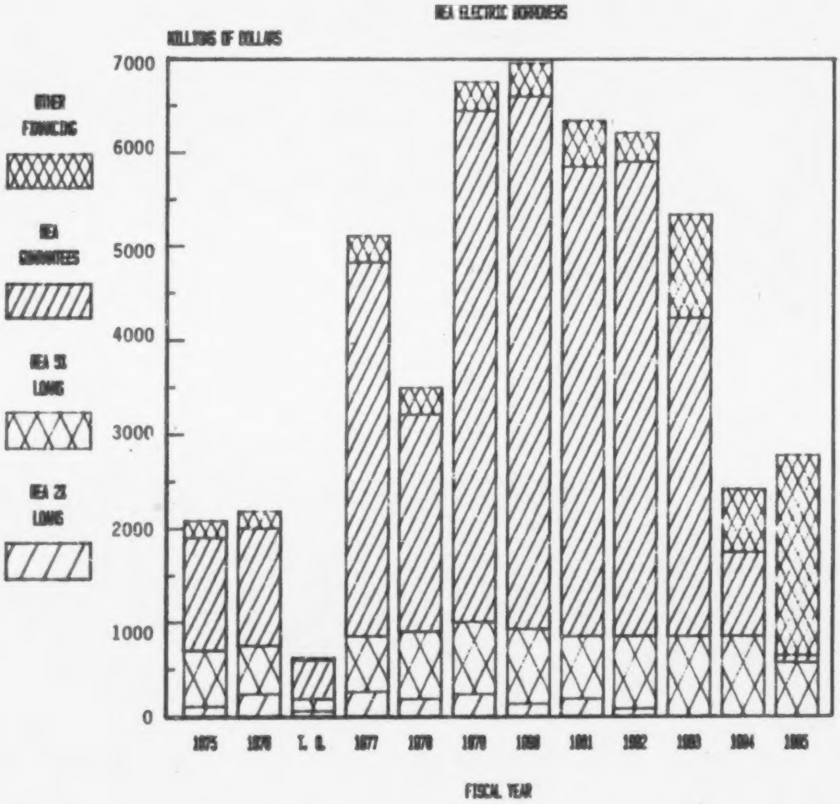


TABLE D-2

Long-Term Financing Approved by Fiscal Year REA Electric Borrowers (in millions)

Fiscal Year	REA		Non-REA		Total Long-Term Financing Approved During FY
	2%	5%	REA Guarantee Commitments	Other Financing	
1969	$344.8	---	---	---	$ 344.8
1970	345.0	---	---	---	345.0
1971	361.8	---	---	$ 12.8	374.6
1972	438.3	---	---	168.4	606.7
1973	235.1	$382.8	---	107.6	725.5
1974	65.5	553.1	$ 974.4	533.9	2,126.9
1975	105.0	595.0	1,206.3	165.0	2,071.3
1976	222.5	527.5	1,241.5	198.4	2,189.9
TQ	47.2	140.3	403.9	31.9	623.3
1977	268.2	581.8	3,985.5	278.3	5,113.8
1978	176.2	723.8	2,309.1	276.3	3,485.4
1979	222.9	777.1	5,429.7	311.9	6,741.6
1980	142.5	782.5	5,660.1	368.3	6,953.4
1981	178.3	671.7	4,994.9	503.9	6,348.8
1982*	77.8	772.2	5,064.6	304.7	6,219.3
1983*	2.7	847.3	3,388.3	1,096.5	5,334.8
1984*	12.6	837.4	897.2	656.5	2,403.7
1985	2.0	560.0	74.6	2,135.6	2,772.2

*Does not include funds made available through the provisions of the Economic Recovery Tax Acts ($629.2 million in F.Y. 1982, $526.4 million in F.Y. 1983 and $46.1 million in F.Y. 1984).

REA electric distribution borrowers receive most of their financing from REA at a five percent interest rate. The remainder is obtained from REA at interest rates as low as two percent (a very small amount since the 1981 amendment to the RE Act) and from non-REA sources such as the National Rural Utilities Cooperative Finance Corporation (CFC) and the Bank for Cooperatives.

Chart D-3

SOURCES OF LONG-TERM FINANCING

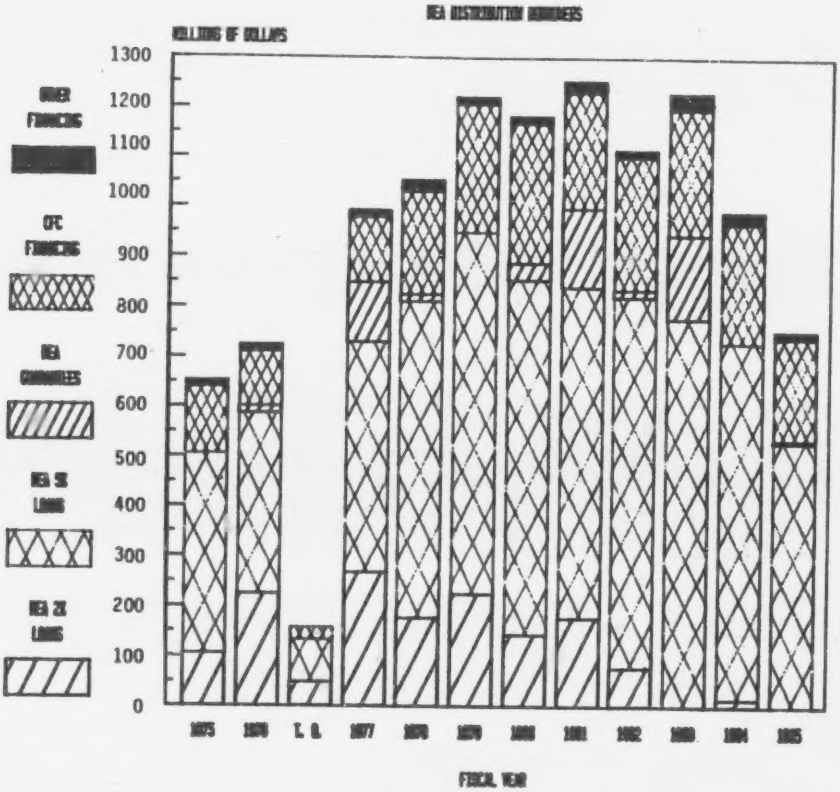


TABLE D-3

Long-Term Financing Approved
by Fiscal Year
REA Electric Distribution Borrowers
(in millions)

	REA		Non-REA			
Fiscal Year	2%	5%	REA Guarantee Commitments	CFC	Other Financing	Total Long-Term Financing Approved During FY
1969	$162.0	---	---	---	---	$ 162.0
1970	269.7	---	---	---	---	269.7
1971	222.0	---	---	$ 1.8	---	223.8
1972	282.6	---	---	50.7	$ 0.6	333.9
1973	176.8	$206.0	---	88.3	8.9	480.0
1974	65.5	347.6	---	99.9	7.1	520.1
1975	105.0	398.5	---	134.7	6.6	644.8
1976	222.5	365.9	$ 13.4	108.1	6.1	716.0
TQ	47.2	88.3	---	20.4	1.6	157.5
1977	268.2	462.1	117.8	129.9	6.6	984.6
1978	176.2	633.8	15.7	204.5	22.1	1,052.3
1979	222.9	727.5	---	254.6	13.3	1,218.3
1980	142.4	709.8	32.5	280.8	14.9	1,180.4
1981	178.3	660.5	156.3	234.5	23.3	1,252.9
1982	77.8	740.1	16.4	265.6	11.9	1,111.8
1983	2.7	774.7	164.3	252.6	37.4	1,231.7
1984	12.6	716.9	1.1	237.8	22.4	990.8
1985	2.0	526.9	5.0	205.4	13.8	753.1

REA electric power supply borrowers receive most of the financing approved by REA; almost all of this is provided by non-REA sources, mainly the Federal Financing Bank, with an REA loan guarantee. Since the 1973 amendment to the Rural Electrification Act, which gave REA the authority to guarantee loans made by other lenders, REA's program of financing for power supply projects has grown from a modest one to one of very large magnitude.

Chart D-4

SOURCES OF LONG-TERM FINANCING

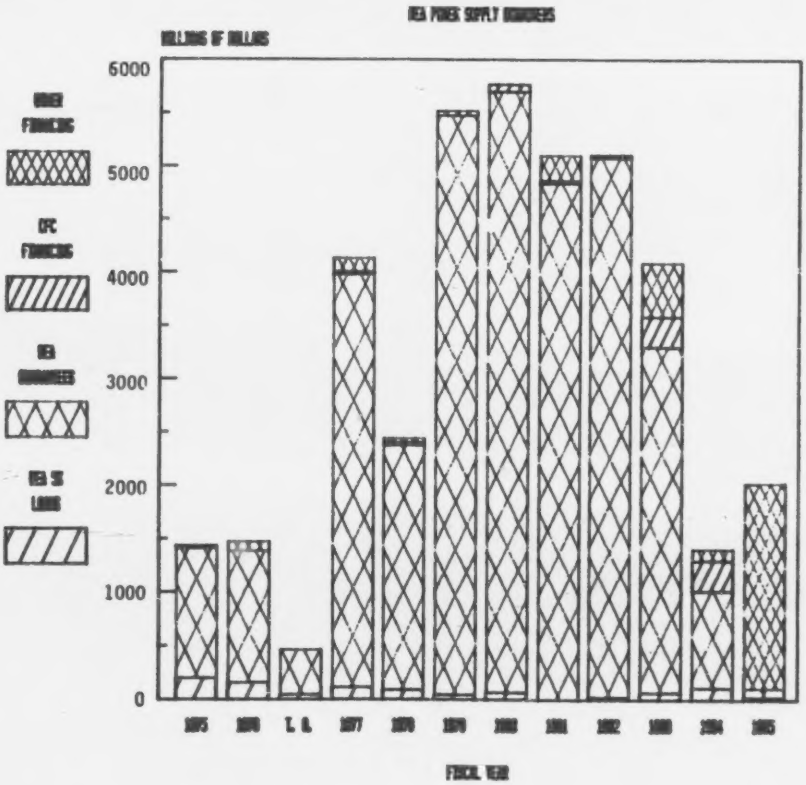


TABLE D-4

Long-Term Financing Approved by Fiscal Year REA Electric Power Supply Borrowers (in millions)

	REA		Non-REA			
Fiscal Year	2%	5%	REA Guarantee Commitments	CFC	Other Financing	Total Long-Term Financing Approved During FY
1969	$182.8	---	---	---	---	$ 182.8
1970	75.2	---	---	---	---	75.2
1971	139.8	---	---	$ 11.0	---	150.8
1972	155.6	---	---	42.1	$ 75.0	272.7
1973	58.3	$176.8	---	10.1	---	245.2
1974	---	205.5	$ 974.4	4.9	422.0	1,606.8
1975	---	196.5	1,206.3	23.7	---	1,426.5
1976	---	161.6	1,228.1	8.1	76.1	1,473.9
TQ	---	52.0	403.9	-0-	9.9	465.8
1977	---	119.7	3,867.7	20.4	121.4	4,129.2
1978	---	90.0	2,293.4	5.5	44.2	2,433.1
1979	---	49.6	5,429.7	8.4	35.6	5,523.3
1980	---	72.7	5,627.6	61.4	11.2	5,772.9
1981	---	11.2	4,838.7	13.2	232.9	5,096.0
1982*	---	32.1	5,048.2	22.7	4.5	5,107.5
1983*	---	72.6	3,224.0	298.8	507.7	4,103.1
1984*	---	120.4	896.1	272.5	123.8	1,412.9
1985	---	33.1	69.6	13.6	1,902.8	2,019.1

*Does not include funds made available through the provisions of the Economic Recovery Tax Acts ($629.2 million in F.Y. 1982, $526.4 million in F.Y. 1983 and $46.1 million in F.Y. 1984).

The number of REA electric borrowers has not changed much since about 1950. The small increases that have occurred during the last several years have been mainly because of the formation of new power supply systems that are wholly owned by REA electric distribution borrowers.

The number of REA telephone borrowers increased rapidly during the first 10-15 years of the program. The number of telephone borrowers continues to increase each year mainly because of initial loans to existing telephone utilities to extend and upgrade telephone service to rural subscribers.

Chart D-5

NUMBER OF REA BORROWERS

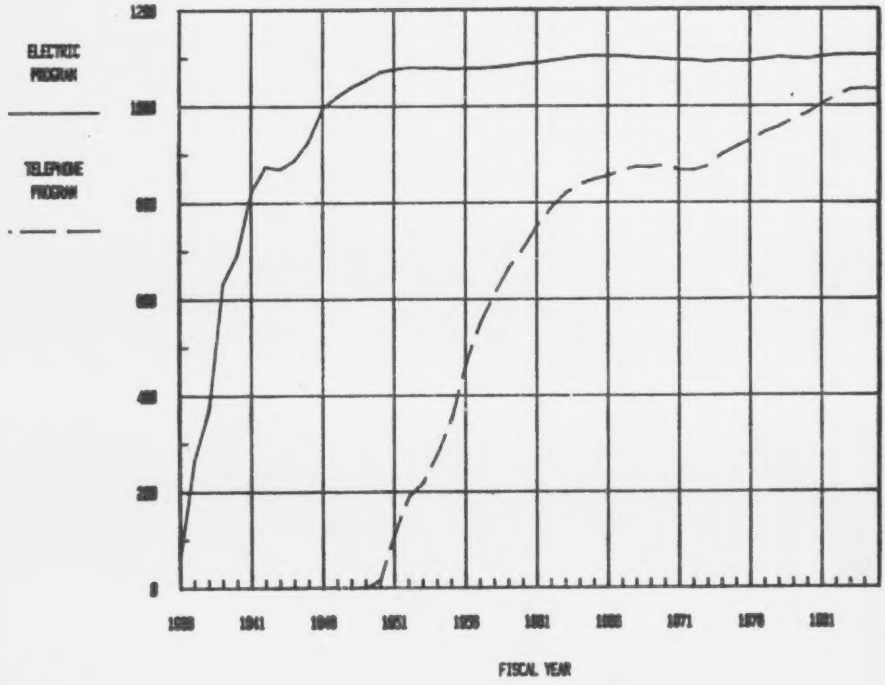


TABLE D-5

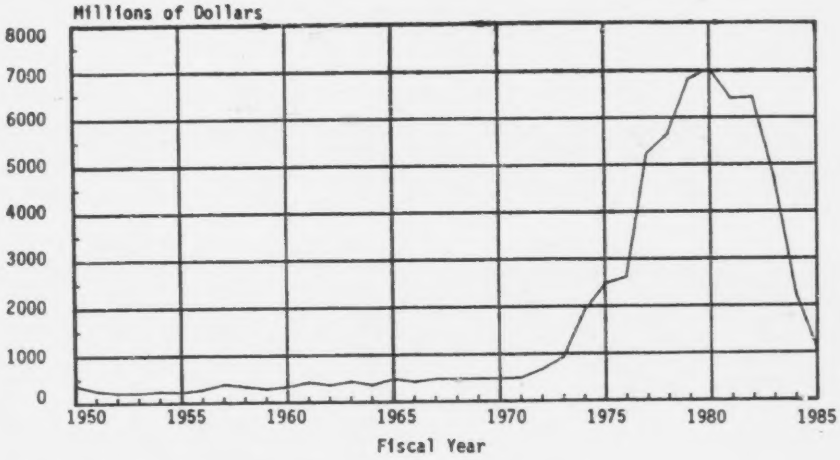
Number of REA Electric and Telephone Borrowers, Fiscal Years 1936-1985

Fiscal Year	Electric Borrowers	Telephone Borrowers
1936	66	---
1937	266	---
1938	367	---
1939	632	---
1940	692	---
1941	823	---
1942	874	---
1943	869	---
1944	887	---
1945	926	---
1946	996	---
1947	1,019	---
1948	1,039	---
1949	1,053	---
1950	1,070	17
1951	1,076	113
1952	1,080	190
1953	1,079	219
1954	1,079	279
1955	1,077	351
1956	1,078	466
1957	1,078	551
1958	1,080	611
1959	1,083	665
1960	1,087	705
1961	1,089	753
1962	1,094	790
1963	1,098	820
1964	1,102	838
1965	1,104	848
1966	1,103	855
1967	1,103	867
1968	1,100	874
1969	1,099	873
1970	1,097	878
1971	1,095	867
1972	1,094	867
1973	1,091	876
1974	1,094	900
1975	1,093	915
1976	1,093	930
TQ	1,093	930
1977	1,097	946
1978	1,101	957
1979	1,099	974
1980	1,097	985
1981	1,102	1,004
1982	1,105	1,021
1983	1,106	1,034
1984	1,105	1,036
1985	1,106	1,034

Although the total amount of financing provided or guaranteed by REA has increased greatly, as has the complexity of many of the electric generation and telephone projects, REA's staff has effectively handled the increased work load.

Chart D-6

LOANS, GUARANTEES, AND STAFF YEARS
Loans and Guarantees Approved*



*Includes REA and RTB loans and REA loan guarantee commitments.

REA STAFF-YEARS

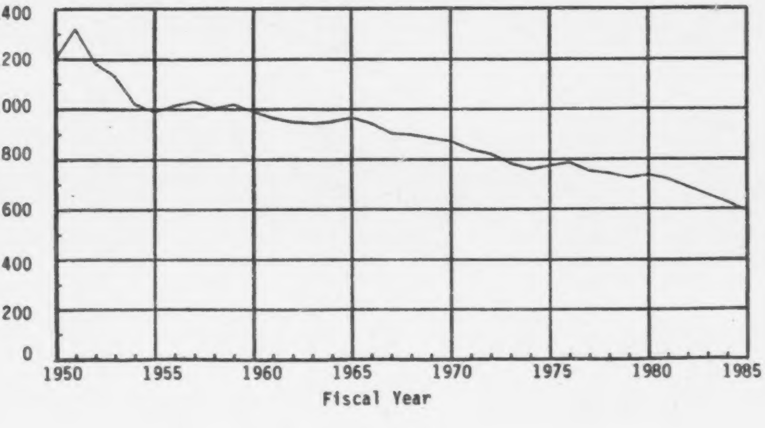


TABLE D-6

Staff Years vs. Loan Funds Approved, Fiscal Years 1936-1985

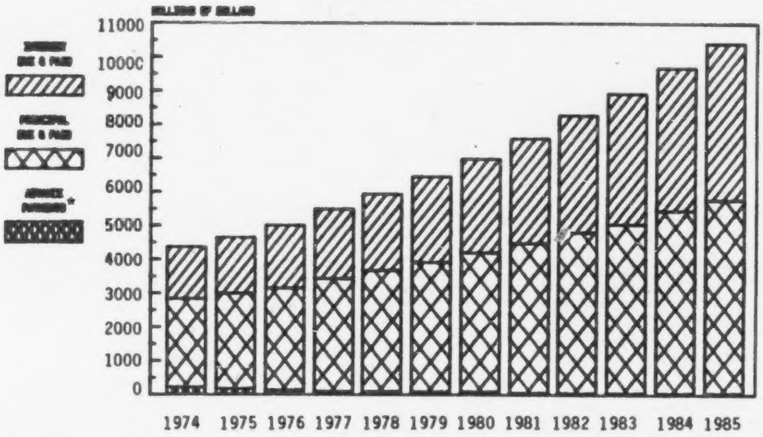
Fiscal Year	Staff Years	Loan Funds Approved*
1936	206	$ 17,929
1937	391	50,347
1938	460	31,660
1939	684	141,899
1940	785	44,880
1941	950	101,710
1942	1,094	91,282
1943	790	8,225
1944	646	34,002
1945	723	26,343
1946	987	290,914
1947	1,117	256,389
1948	929	319,110
1949	1,076	449,318
1950	1,201	379,719
1951	1,321	259,993
1952	1,183	209,017
1953	1,131	206,946
1954	1,020	241,816
1955	987	220,274
1956	1,014	270,785
1957	1,029	382,191
1958	1,002	330,875
1959	1,018	276,215
1960	989	325,108
1961	964	416,902
1962	948	352,931
1963	943	427,279
1964	950	351,412
1965	966	476,947
1966	943	412,729
1967	904	470,984
1968	898	469,928
1969	884	469,825
1970	872	469,962
1971	839	486,817
1972	821	662,873
1973	782	912,931
1974	760	1,896,075
1975	773	2,466,470
1976	785	2,603,287
TQ	168	692,585
1977	751	5,229,061
1978	741	3,634,935
1979	724	6,810,338
1980	735	7,022,604
1981	718	6,391,064
1982	686	6,425,693
1983	655	4,714,614
1984	626	2,223,891
1985	591	1,028,998

*Includes REA and electric and telephone loans, RTB loans and REA loan guarantee commitments.

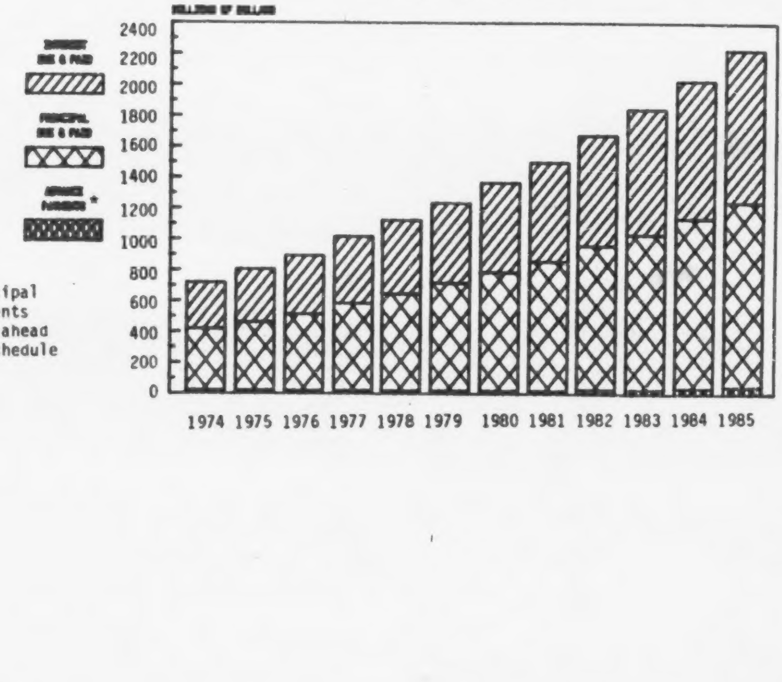
As of September 30, 1985, REA has collected more than $12.6 billion in principal and interest payments from its rural electric and telephone borrowers. Total losses to date have amounted to $44,478.

Chart D-7 CUMULATIVE PAYMENTS OF PRINCIPAL AND INTEREST ON REA LOANS

REA ELECTRIC BORROWERS



REA TELEPHONE BORROWERS



*Principal payments made ahead of schedule

TABLE D-7

PAYMENTS OF PRINCIPAL AND INTEREST ON REA LOANS
CUMULATIVE TOTALS IN MILLIONS
(INCLUDES NOTES PAID IN FULL)

Fiscal Year	ELECTRIC Advance Payments*	ELECTRIC Principal Due & Paid	ELECTRIC Interest Due & Paid	TELEPHONE Advance Payments*	TELEPHONE Principal Due & Paid	TELEPHONE Interest Due & Paid
1971......	$317.1	$2,097.2	$1,205.0	$25.2	$262.3	$214.1
1972......	293.5	2,267.4	1,302.8	25.2	302.2	242.1
1973......	244.2	2,446.6	1,406.6	23.9	343.9	271.7
1974......	192.5	2,628.6	1,519.6	20.6	389.8	302.9
1975......	148.2	2,827.4	1,659.4	20.0	440.1	337.5
1976......	125.6	3,038.3	1,822.5	19.4	492.8	374.9
1977......	104.7	3,323.1	2,056.3	19.7	563.3	427.4
1978......	93.8	3,574.1	2,277.1	21.4	624.6	473.7
1979......	74.1	3,842.4	2,523.0	21.6	689.5	523.2
1980......	67.0	4,127.5	2,801.7	21.3	760.4	578.5
1981......	55.9	4,425.9	3,118.6	22.4	834.4	640.9
1982......	48.5	4,736.0	3,469.9	27.0	935.5	710.6
1983......	47.6	5,007.5	3,845.0	30.3	1,004.1	805.6
1984......	50.7	5,376.8	4,240.4	37.1	1,097.8	892.2
1985......	55.5	5,704.8	4,658.4	44.1	1,198.1	983.9

* Principal payments made ahead of schedule.

Each year since the Rural Electrification and Telephone Revolving Fund (RETRF) was established in 1973, REA has paid out more in advances to borrowers and in interest, than it has received in payments on loans.

The RETRF obtains the additional funds necessary to meet advances and interest expenses from the U.S. Treasury, directly or through the Federal Financing Bank, at rates of interest greatly in excess of the interest rates charged borrowers.

Chart D-8 RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND

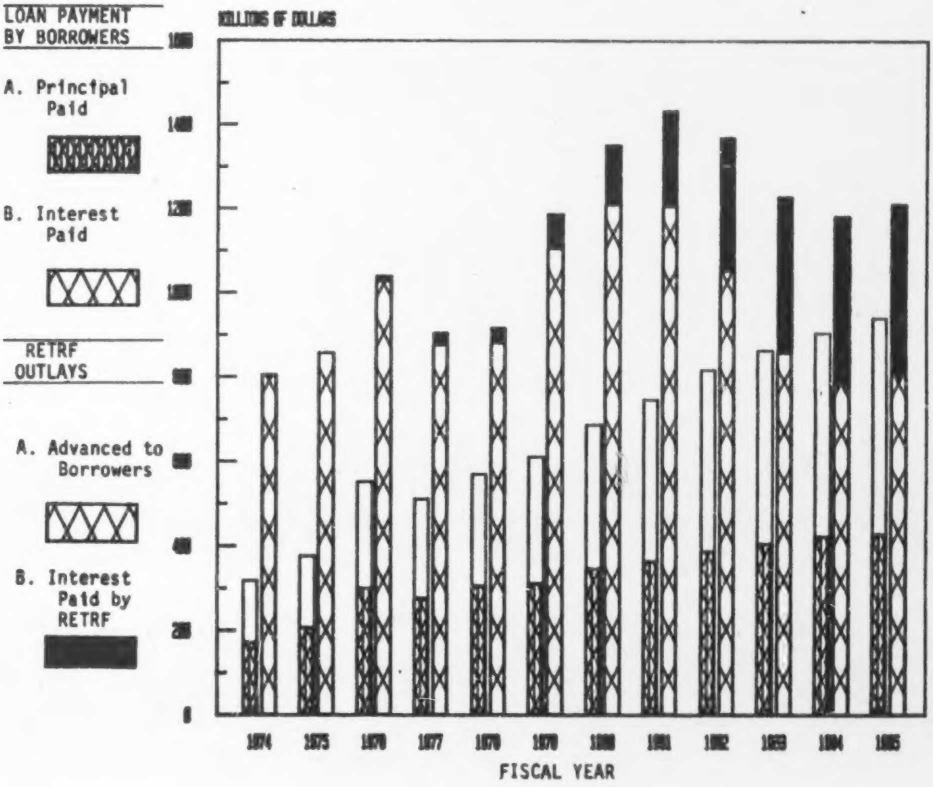


TABLE D-8 THE RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND (RETRF)
(Dollars in Millions)

FISCAL YEAR	LOAN PAYMENTS RECEIVED		RETRF OUTLAYS	
	PRINCIPAL	INTEREST	ADVANCES TO BORROWERS	INTEREST PAID
1973	$ 20.3	$ 21.4	$ 92.4	$ 0.0
1974	173.1	144.2	802.4	0.0
1975	204.0	174.3	854.9	0.0
1976	299.2	252.3	1027.9	11.4
1977	275.2	234.9	874.9	29.6
1978	303.1	268.1	881.4	33.3
1979	313.8	296.9	1105.2	79.1
1980	349.1	336.9	1206.8	144.1
1981	363.1	382.7	1203.8	228.4
1982	389.3	425.8	1048.0	316.5
1983	405.2	459.1	855.6	367.9
1984	425.5	479.2	781.1	395.6
1985	428.3	509.8	797.1	408.9

When Congress created the REA loan program it did not provide an interest rate subsidy. Interest rates charged borrowers fluctuated with the cost of money to the Government. It was not until 1944 that Congress established a fixed interest rate of two percent, which at that time was the approximate cost of money to the Government. As time went by and the interest rates rose, the subsidy associated with REA loans grew. During recent years there has been a significant widening of the gap between the cost of money to the Government and the interest rate charged borrowers on REA loans.

Chart D-9 INTEREST RATE ON REA LOANS vs. COST OF MONEY TO THE GOVERNMENT

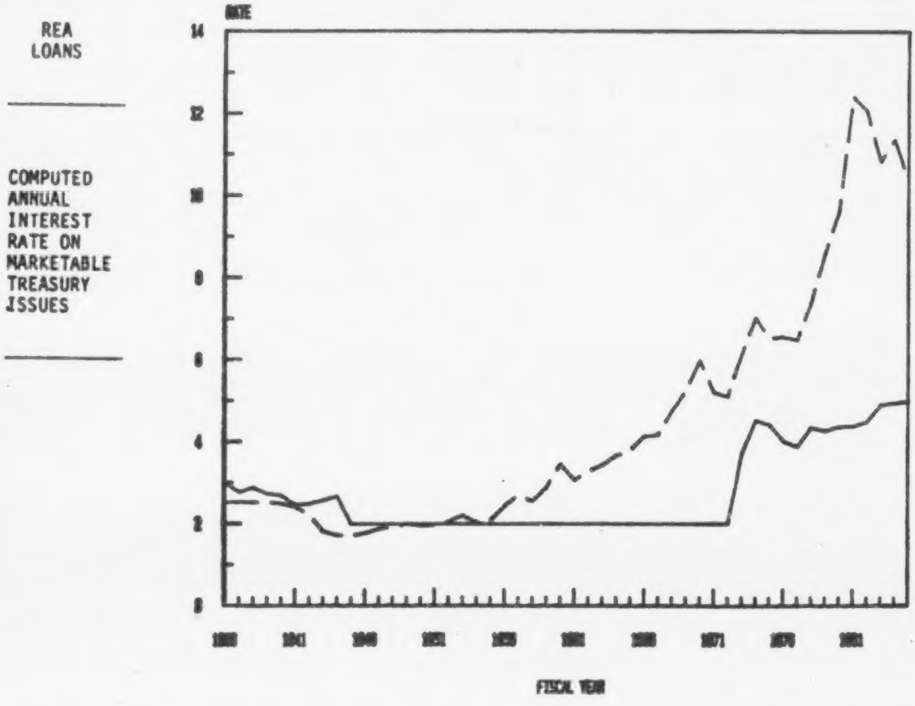


TABLE U-9

Interest Rate on REA Loans vs. Cost of Money to the Government

Fiscal Year	Interest Rate Paid by Borrowers on REA Loans*	Computed Annual Interest Rate On Marketable Treasury Issues**
1936	3.00	2.530
1937	2.77	2.525
1938	2.88	2.521
1939	2.73	2.525
1940	2.69	2.492
1941	2.46	2.413
1942	2.48	2.225
1943	2.57	1.822
1944	2.67	1.725
1945	2.00	1.718
1946	2.00	1.773
1947	2.00	1.871
1948	2.00	1.942
1949	2.00	2.001
1950	2.00	1.958
1951	2.00	1.981
1952	2.00	2.051
1953	2.00	2.207
1954	2.00	2.043
1955	2.00	2.079
1956	2.00	2.427
1957	2.00	2.707
1958	2.00	2.546
1959	2.00	2.891
1960	2.00	3.449
1961	2.00	3.063
1962	2.00	3.285
1963	2.00	3.425
1964	2.00	3.659
1965	2.00	3.800
1966	2.00	4.134
1967	2.00	4.165
1968	2.00	4.757
1969	2.00	5.232
1970	2.00	5.986
1971	2.00	5.210
1972	2.00	5.099
1973	3.72	6.129
1974	4.52	7.030
1975	4.42	6.533
1976	4.02	6.559
TQ	3.92	6.591
1977	3.88	6.481
1978	4.35	7.388
1979	4.27	8.592
1980	4.37	9.608
1981	4.38	12.435
1982	4.48	12.082
1983	4.90	10.850
1984	4.95	11.383
1985	4.99	10.383

*Weighted average interest rate on REA loans approved during the fiscal year.
**Source: Monthly Statement of Public Debt, U.S. Department of Treasury

As of September 1985, REA borrowers had received more than $58.7 billion from REA loans, loan guarantee commitments and RTB loans. Loan guarantee commitments account for most of this financing, however, a large proportion has been provided by REA loans at the two percent and five percent interest rates.

Chart D-10

CUMULATIVE REA AND RTB LOANS AND REA LOAN GUARANTEE COMMITMENTS, AS OF SEPTEMBER 30, 1985

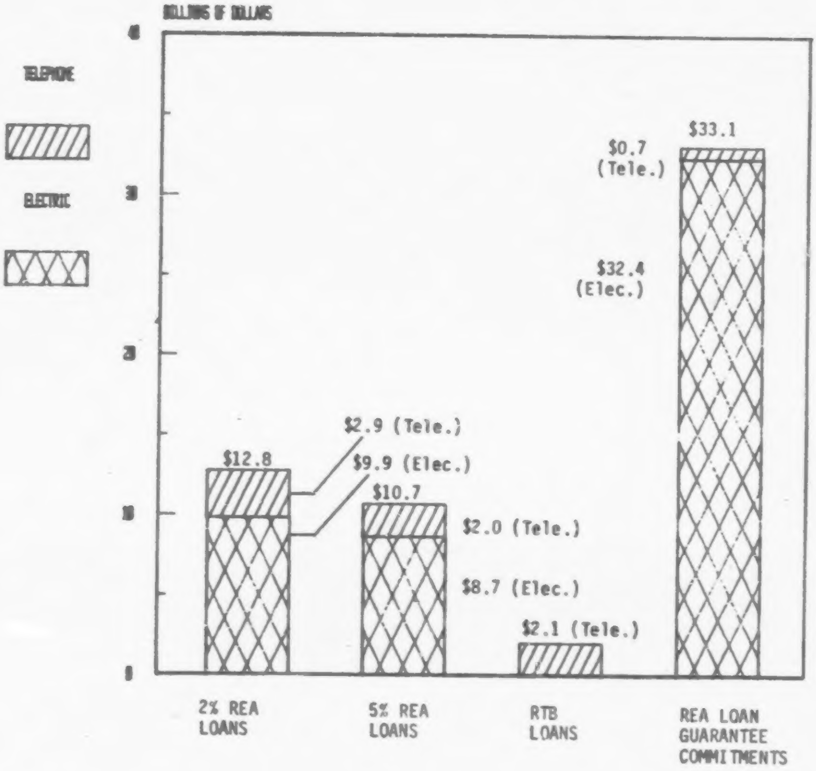


Table D-10

Cumulative REA Loans to Electric and Telephone Borrowers, as of September 30, 1985

	Electric Loans	Telephone Loans
UNITED STATES	$18,607,067,831	$4,938,184,501
Alabama	371,068,006	141,116,119
Alaska	689,409,196	120,873,000
Arizona	160,883,419	39,910,000
Arkansas	580,267,349	81,314,326
California	68,904,523	84,418,614
Colorado	826,808,997	45,608,765
Connecticut	--	--
Delaware	32,865,881	--
Florida	533,621,153	42,897,463
Georgia	748,378,712	220,249,182
Hawaii	--	--
Idaho	118,109,683	31,412,926
Illinois	429,306,447	69,475,105
Indiana	354,042,723	94,248,545
Iowa	608,305,725	126,081,964
Kansas	483,785,328	171,200,573
Kentucky	818,415,180	233,635,000
Louisiana	537,305,909	88,520,118
Maine	22,004,765	29,721,472
Maryland	122,408,500	2,061,000
Massachusetts	--	1,835,000
Michigan	291,809,812	91,072,571
Minnesota	810,003,443	229,826,559
Mississippi	465,622,504	83,966,604
Missouri	926,868,832	178,496,841
Montana	267,947,012	160,713,352
Nebraska	458,347,861	99,372,666
Nevada	70,028,563	7,603,000
New Hampshire	69,528,884	11,337,000
New Jersey	11,762,660	14,295,000
New Mexico	270,461,517	140,654,000
New York	24,022,891	41,368,149
North Carolina	512,852,211	178,524,323
North Dakota	830,240,332	158,972,114
Ohio	328,127,099	26,052,571
Oklahoma	773,154,234	179,546,377
Oregon	229,571,249	54,862,641
Pennsylvania	191,315,329	73,922,890
Rhode Island	--	--
South Carolina	547,977,025	172,233,994
South Dakota	407,569,525	142,246,695
Tennessee	300,679,033	241,059,000
Texas	1,779,506,226	402,711,414
Utah	63,152,996	33,808,000
Vermont	51,150,918	4,785,000
Virginia	334,525,756	58,593,000
Washington	183,267,598	37,628,489
West Virginia	6,281,633	59,174,000
Wisconsin	429,129,125	233,976,068
Wyoming	227,114,940	12,138,000
Puerto Rico	238,727,000	115,677,000
Virgin Islands	430,126	--
Guam	--	57,776,000
Micronesia	--	11,212,000

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Table D-11 Cumulative REA Loan Guarantee Commitments and Rural Telephone Bank Loans
As of September 30, 1985

	Electric	Telephone	Rural Telephone Bank
UNITED STATES	$32,372,593,434	$679,454,000	$2,141,439,869
Alabama	295,358,000	11,901,000	88,238,850
Alaska	249,015,000	46,943,000	62,748,000
Arizona	337,697,000	5,000,000	94,307,483
Arkansas	932,180,947	35,744,000	48,177,045
California	--	10,396,000	50,664,600
Colorado	1,490,229,520	--	23,013,469
Connecticut	--	--	--
Delaware	--	--	--
Florida	1,114,869,000	76,556,000	50,740,200
Georgia	3,765,763,278	88,241,000	126,475,265
Hawaii	--	--	--
Idaho	130,000	--	10,519,950
Illinois	1,005,766,000	--	20,396,697
Indiana	2,051,888,000	--	23,052,750
Iowa	266,758,000	9,700,000	42,707,395
Kansas	797,147,000	20,440,000	46,235,907
Kentucky	2,977,068,000	28,840,000	41,797,350
Louisiana	3,967,381,000	13,651,000	50,437,800
Maine	--	1,875,000	34,415,850
Maryland	--	--	2,326,800
Massachusetts	--	--	519,750
Michigan	818,369,756	2,953,000	63,741,300
Minnesota	1,285,134,000	10,239,000	77,068,428
Mississippi	723,650,000	5,200,000	14,853,300
Missouri	855,775,080	67,770,000	52,203,795
Montana	11,478,000	--	2,144,100
Nebraska	--	--	24,159,425
Nevada	--	--	8,319,150
New Hampshire	146,182,000	--	16,129,050
New Jersey	--	3,084,000	16,554,300
New Mexico	387,682,000	--	3,134,250
New York	--	18,220,000	40,957,875
North Carolina	1,513,369,600	31,158,000	97,614,622
North Dakota	2,831,938,253	--	14,638,733
Ohio	72,110,000	--	5,259,450
Oklahoma	637,093,000	2,744,000	94,666,130
Oregon	54,128,000	18,228,000	41,743,301
Pennsylvania	647,908,000	43,247,000	183,214,413
Rhode Island	--	--	--
South Carolina	530,136,000	7,885,000	104,983,320
South Dakota	13,828,000	--	14,995,701
Tennessee	--	14,358,000	57,579,900
Texas	1,021,764,000	76,131,000	156,035,554
Utah	981,136,000	--	6,638,100
Vermont	50,726,000	--	8,547,000
Virginia	263,000,000	--	17,997,368
Washington	--	--	18,932,285
West Virginia	--	5,250,000	16,426,200
Wisconsin	260,359,000	23,700,000	139,808,358
Wyoming	15,576,000	--	7,675,500
Puerto Rico	--	--	15,116,850
Guam	--	--	3,526,950

Table D-12 REA Loans to Electric and Telephone Borrowers, Fiscal Year 1985

	Electric Loans	Telephone Loans
UNITED STATES	$562,029,000	$224,589,000
Alabama	7,919,000	20,168,000
Alaska	39,586,000	12,433,000
Arizona	3,124,000	7,295,000
Arkansas	7,791,000	5,833,000
California	---	5,829,000
Colorado	1,267,000	---
Connecticut	---	---
Delaware	3,107,000	---
Florida	38,762,000	---
Georgia	62,934,000	8,454,000
Hawaii	---	---
Idaho	2,078,000	3,822,000
Illinois	11,353,000	---
Indiana	3,809,000	---
Iowa	9,695,000	1,098,000
Kansas	10,570,000	8,150,000
Kentucky	3,996,000	17,251,000
Louisiana	24,897,000	970,000
Maine	501,000	3,285,000
Maryland	---	---
Massachusetts	---	---
Michigan	13,121,000	5,624,000
Minnesota	23,150,000	21,258,000
Mississippi	9,049,000	7,541,000
Missouri	4,664,000	---
Montana	19,899,000	17,673,000
Nebraska	---	---
Nevada	6,408,000	---
New Hampshire	---	---
New Jersey	---	---
New Mexico	1,113,000	2,253,000
New York	---	---
North Carolina	24,207,000	1,575,000
North Dakota	4,532,000	27,374,000
Ohio	6,503,000	---
Oklahoma	16,975,000	---
Oregon	1,003,000	---
Pennsylvania	8,647,000	---
Rhode Island	---	---
South Carolina	54,775,000	---
South Dakota	8,513,000	8,567,000
Tennessee	6,759,000	16,519,000
Texas	107,904,000	14,661,000
Utah	---	---
Vermont	1,981,000	---
Virginia	518,000	---
Washington	3,354,000	---
West Virginia	---	---
Wisconsin	3,727,000	6,956,000
Wyoming	3,838,000	---
Puerto Rico	---	---

Table D-13 REA Loan Guarantee Commitments and Rural Telephone Bank Loans
Fiscal Year 1985

	REA Loan Guarantee Commitments		Rural Telephone Bank Loans
	Electric	Telephone	
UNITED STATES	$74,607,000	---	$167,773,200
Alabama	---	---	27,408,150
Alaska	18,120,000	---	3,356,850
Arizona	---	---	---
Arkansas	---	---	1,158,150
California	---	---	423,150
Colorado	---	---	---
Connecticut	---	---	---
Delaware	---	---	---
Florida	---	---	3,028,200
Georgia	---	---	18,161,850
Hawaii	---	---	---
Idaho	---	---	577,500
Illinois	---	---	---
Indiana	---	---	---
Iowa	---	---	10,101,000
Kansas	10,000,000	---	---
Kentucky	---	---	---
Louisiana	---	---	8,038,800
Maine	---	---	5,303,550
Maryland	---	---	---
Massachusetts	---	---	---
Michigan	---	---	16,604,700
Minnesota	---	---	1,043,700
Mississippi	---	---	---
Missouri	---	---	---
Montana	---	---	431,550
Nebraska	---	---	
Nevada	---	---	---
New Hampshire	---	---	---
New Jersey	---	---	---
New Mexico	---	---	---
New York	---	---	5,528,250
North Carolina	4,987,000	---	6,248,550
North Dakota	---	---	---
Ohio	---	---	---
Oklahoma	---	---	1,945,650
Oregon	---	---	---
Pennsylvania	41,500,000	---	20,224,050
Rhode Island	---	---	---
South Carolina	---	---	---
South Dakota	---	---	---
Tennessee	---	---	---
Texas	---	---	5,082,000
Utah	---	---	---
Vermont	---	---	509,250
Virginia	---	---	3,004,050
Washington	---	---	5,558,700
West Virginia	---	---	---
Wisconsin	---	---	8,918,700
Wyoming	---	---	---
Puerto Rico	---	---	15,116,850

TABLE D-14 LOANS, ADVANCES AND UNADVANCED FUNDS, FISCAL YEARS (FY) 1980 -1985
(Dollars in Millions)

	1985	1984	1983	1982	1981	1980
REA Electric Loans						
(a) Approved during FY	562.0	850.0	$ 850.0	$ 850.0	$ 850.0	$ 925.0
(b) Funds advanced during FY	661.2	592.2	673.7	809.4	923.1	967.7
(c) Approved but unadvanced, September 30	1,646.9	1,754.0	1,504.1	1,334.4	1,293.8	1,367.1
REA Telephone Loans						
(a) Approved during FY	224.6	228.6	$ 250.8	$ 249.3	$ 249.8	$ 250.1
(b) Funds advanced during FY	135.9	187.8	181.9	238.6	280.7	239.1
(c) Approved but unadvanced, September 30	838.9	775.0	741.8	678.5	677.9	719.1
Rural Telephone Bank Loans						
(a) Approved during FY	167.8	143.0	$ 171.6	$ 184.8	$ 159.9	$ 160.0
(b) Funds advanced during FY	72.7	90.5	93.4	112.2	148.6	199.9
(c) Approved but unadvanced September 30	665.3	589.6	547.5	474.9	413.1	408.4
REA Loan Guarantee Commitments Electric						
(a) Approved during FY	72.5	897.2	$3,388.3	$5,064.6	$4,994.9	$5,660.1
(b) Funds advanced during FY	2,188.9	2,399.6	3,182.3	4,130.1	4,205.4	2,510.5
(c) Approved but unadvanced, September 30	7,214.3	11,090.6	12,878.1	13,831.7	12,946.8	12,114.0
REA Loan Guarantee Commitments Telephone						
(a) Approved during FY	0	105.1	$ 54.0	$ 77.0	$ 136.4	$ 27.4
(b) Funds advanced during FY	20.9	43.5	31.3	64.7	36.7	63.2
(c) Approved but unadvanced, September 30	156.8	191.6	216.7	281.1	270.7	171.1

BORROWER STATISTICS

Rural electric systems have historically had more rapid rates of increase in electric demand than the total electric utility industry. Since 1973 growth in electric usage has declined for both REA borrowers and the total industry. However, 1984 statistics show that the amount of electricity used by rural electric consumers grew the highest rate since 1977.

Chart E-2 ANNUAL PERCENT CHANGE IN ELECTRICITY USE

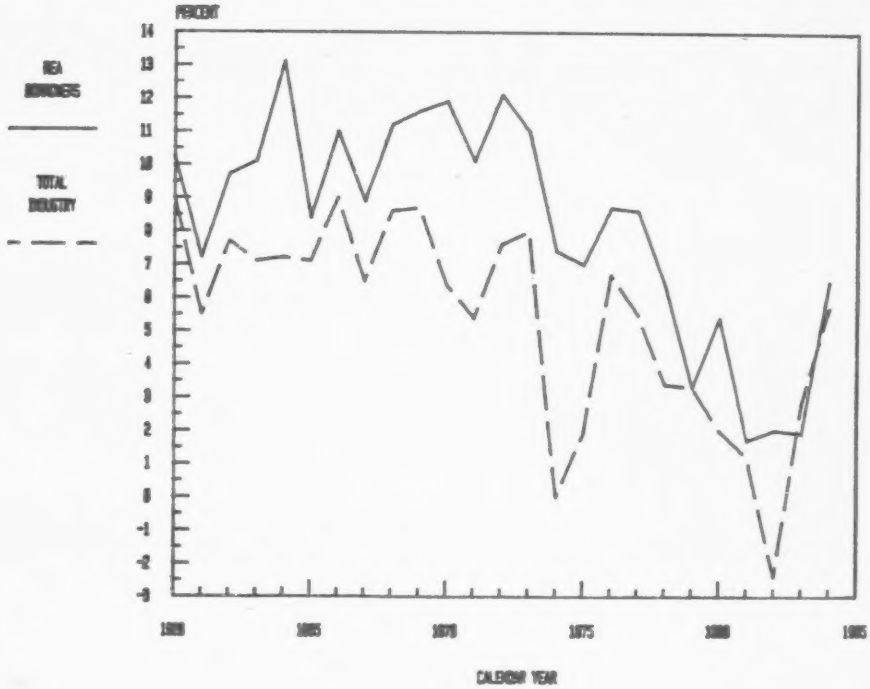


TABLE E-1

Growth Trends in Electricity Usage

Year	Annual Percent Change in kWh Sales to Ultimate Consumers	
	REA Borrowers	Total Electric Utility Industry
1960	10.2%	9.0%
1961	7.2	5.5
1962	9.7	7.7
1963	10.1	7.1
1964	13.1	7.2
1965	8.4	7.1
1966	11.0	9.0
1967	8.9	6.5
1968	11.2	8.6
1969	11.6	8.7
1970	11.9	6.4
1971	10.1	5.4
1972	12.1	7.6
1973	11.0	8.0
1974	7.4	0.0
1975	7.0	1.9
1976	8.7	6.7
1977	8.6	5.5
1978	6.4	3.4
1979	3.3	3.3
1980	5.4	2.0
1981	1.7	1.2
1982	2.0	-2.4
1983	1.9	2.8*
1984	6.5	5.7**

Sources: REA Bulletin 1-1; Edison Electric Institute Statistical Yearbook.

* Revised
** Preliminary

Consumers served by rural electric systems have been charged increasingly higher prices for electricity since the early 1970's. These price increases came after a long period of steadily declining prices.

However, it is interesting to note that when inflation is adjusted for, there has been very little real increase in electricity prices to rural electric consumers--electricity remains a very good buy. Rural electric consumers are paying far less for electricity today in constant dollars than they were in the early days of the rural electric program.

Chart E-2

AVERAGE RESIDENTIAL PRICE PER KWH

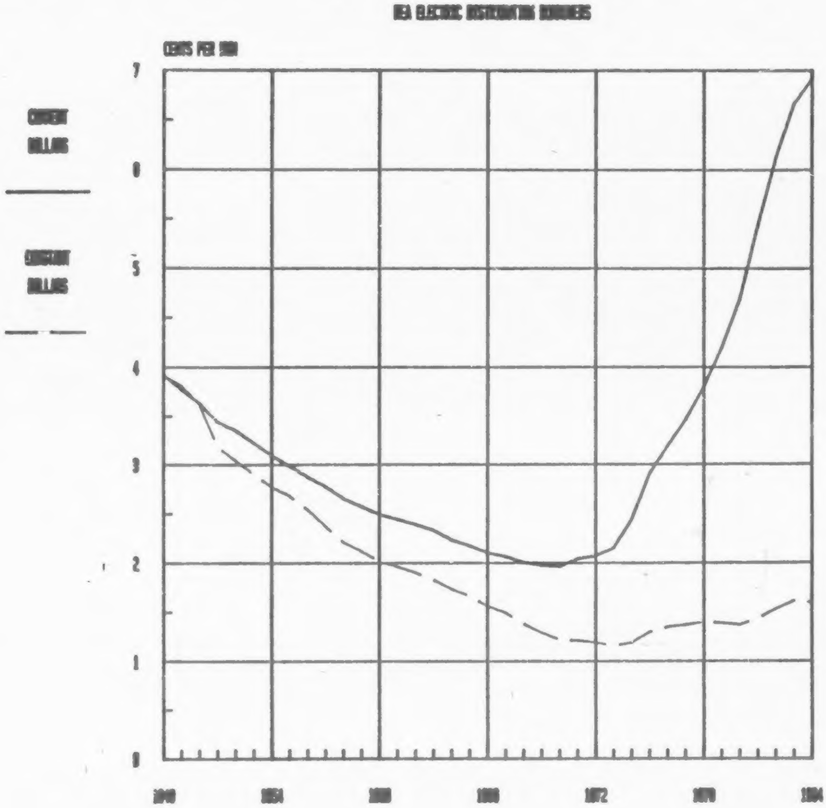


TABLE E-2

Average Resident'al Price Per kWh Charged by REA Electric Borrowers

Year	Current[1]	Constant[2]
1948	3.92¢	3.92¢
1949	3.77	3.81
1950	3.63	3.63
1951	3.44	3.19
1952	3.35	3.04
1953	3.22	2.90
1954	3.09	2.77
1955	2.98	2.68
1956	2.87	2.54
1957	2.77	2.37
1958	2.65	2.21
1959	2.57	2.12
1960	2.49	2.02
1961	2.44	1.96
1962	2.39	1.90
1963	2.33	1.83
1964	2.23	1.73
1965	2.17	1.66
1966	2.10	1.56
1967	2.06	1.49
1968	2.00	1.38
1969	1.97	1.29
1970	1.96	1.22
1971	2.04	1.21
1972	2.07	1.19
1973	2.15	1.16
1974	2.44	1.19
1975	2.90	1.30
1976	3.19	1.35
1977	3.46	1.37
1978	3.80	1.40
1979	4.20	1.39
1980	4.69	1.37
1981	5.43	1.44
1982	6.13	1.53
1983	6.66	1.61
1984	6.92	1.60

[1] Current $ = dollars of the year.

[2] Constant $ = dollars adjusted for inflation.
The Consumer Price Index was used to convert current dollars to constant dollars.

Electric rates charged rural electric consumers have increased mainly because of sharp escalation in the cost of power. In most cases, increases in the cost of distributing power have been more moderate. The cost of power has risen mainly because of: (a) increasing fuel costs and (b) expensive new generating units that are coming on line.

Chart E-3

AVERAGE POWER & OTHER COSTS PER KWH SOLD

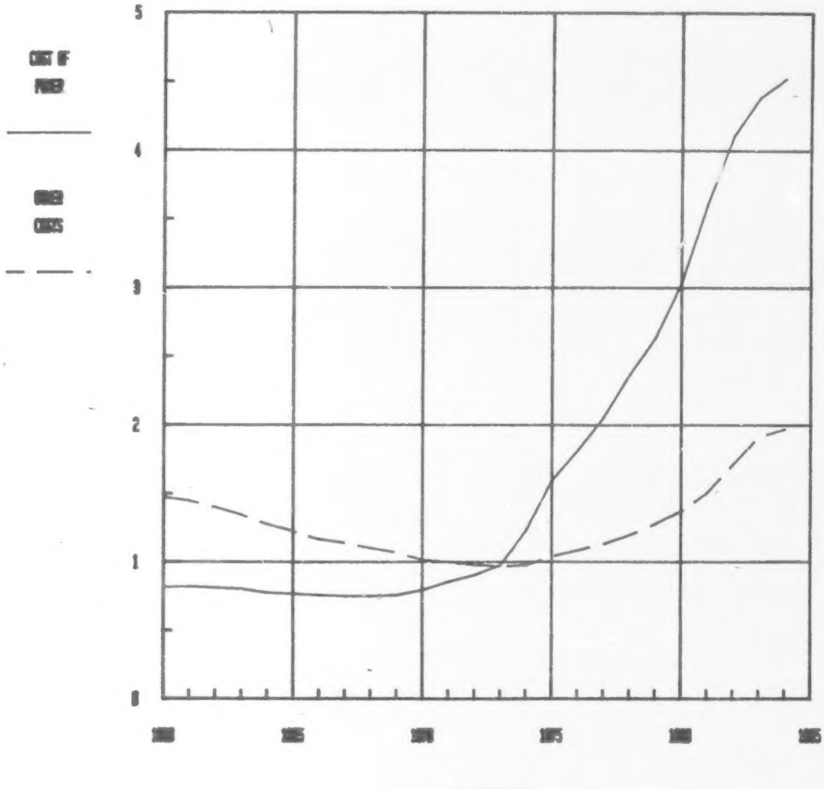


TABLE E-3 AVERAGE POWER AND OTHER COSTS PER kWh SOLD

Year	Cost of Power 1/	Other Costs 2/
1960	0.817¢	1.472¢
1961	0.819	1.446
1962	0.811	1.400
1963	0.802	1.346
1964	0.773	1.276
1965	0.766	1.224
1966	0.757	1.165
1967	0.750	1.138
1968	0.752	1.100
1969	0.757	1.069
1970	0.793	1.014
1971	0.854	0.999
1972	0.902	0.976
1973	0.974	0.969
1974	1.225	0.974
1975	1.593	1.039
1976	1.813	1.082
1977	2.056	1.129
1978	2.364	1.192
1979	2.631	1.277
1980	3.031	1.369
1981	3.606	1.504
1982	4.105	1.712
1983	4.383	1.912
1984	4.522	1.970

1/ Includes power production expenses, transmission expense and cost of purchased power.

2/ Total revenue from sales of electric energy less cost of power.

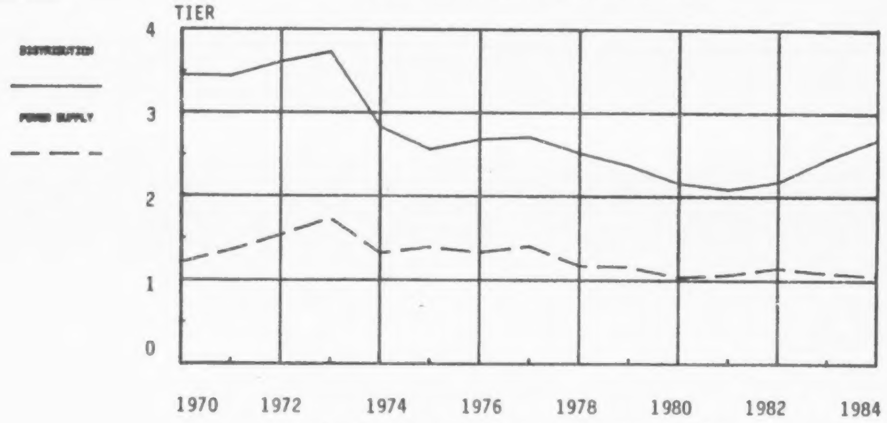
Source: REA Bulletin 1-1/

The financial ratios of REA electric borrowers declined substantially during the latter half of the 1970s and into the 1980s when costs increased rapidly and were not matched by similar rate increases. Financial ratios of distribution borrowers have improved in the past few years but those of power supply borrowers have remained very low.

Strong financial ratios are important because they affect the cost at which REA borrowers are able to obtain funds from private sources.

Chart E-4

TIMES INTEREST EARNED RATIOS



EQUITY AS A PERCENT OF TOTAL ASSETS

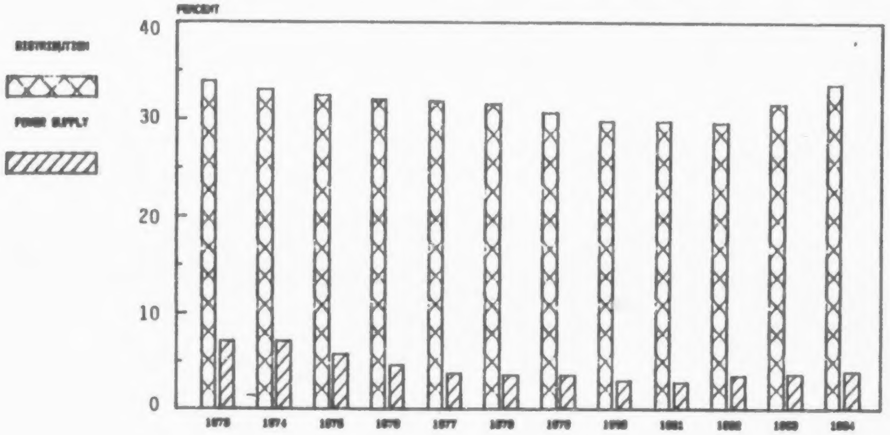


TABLE E-4

FINANCIAL RATIOS OF REA ELECTRIC BORROWERS

Year	Times Interest Earned Ratio (TIER)		Equity as a Percent of Total Assets	
	Distribution Borrowers	Power Supply Borrowers	Distribution Borrowers	Power Supply Borrowers
1970	3.45	1.20	34.3%	6.4%
1971	3.44	1.35	33.7	6.4
1972	3.61	1.53	33.9	6.6
1973	3.73	1.73	33.9	7.0
1974	2.83	1.32	33.0	7.0
1975	2.56	1.39	32.4	5.7
1976	2.68	1.33	32.0	4.5
1977	2.71	1.40	31.9	3.7
1978	2.52	1.17	31.5	3.5
1979	2.37	1.16	30.6	3.6
1980	2.16	1.04	29.8	3.0
1981	2.09	1.07	29.8	2.8
1982	2.18	1.15	29.6	3.5
1983	2.46	1.09	31.6	3.7
1984	2.69	1.06	33.6	3.9

Most of the revenue collected by REA electric distribution borrowers is used to pay for wholesale power. This component of cost has increased rapidly, and margins as a percent of total revenue have declined.

Interest expense represents only a small percentage of the revenue of distribution borrowers.

Chart E-5

DISPOSITION OF THE REVENUE DOLLAR

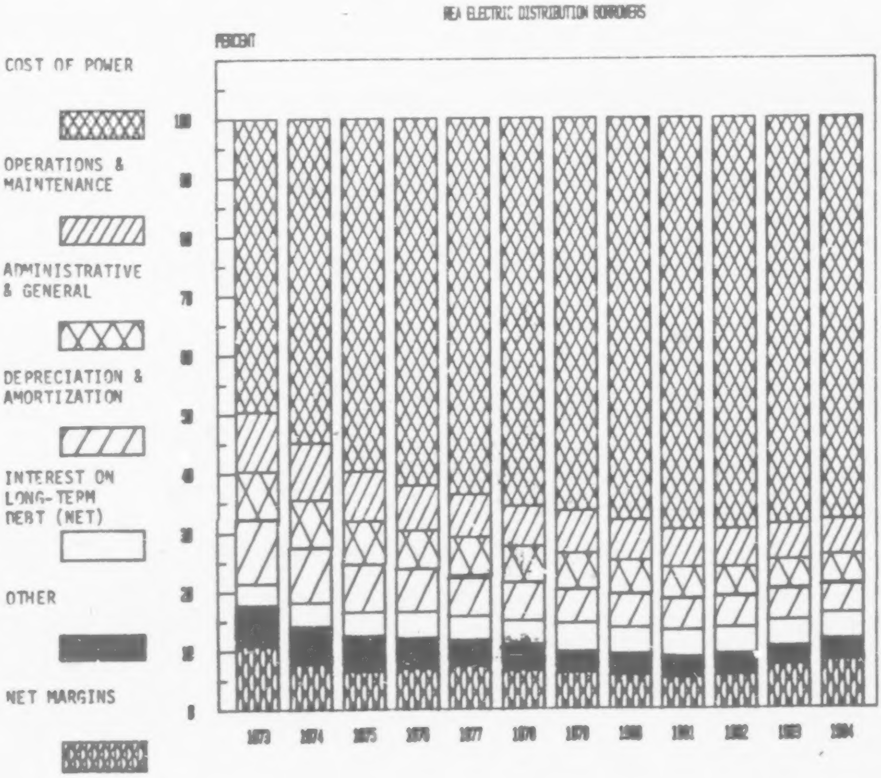


TABLE E-5

DISPOSITION OF THE REVENUE DOLLAR: REA ELECTRIC DISTRIBUTION BORROWERS
(Dollars in Thousands)

	1970		1971		1972		1973		1974	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$1,252,166	100.0	$1,412,277	100.0	$1,605,619	100.0	$1,840,930	100.0	$2,233,854	100.0
Cost of Power	541,172	43.2	641,150	45.4	759,760	47.3	909,404	49.4	1,227,751	55.0
Operation and Maintenance	139,040	11.1	151,760	10.7	164,692	10.2	185,023	10.1	212,590	9.5
Administrative and General	115,037	9.2	127,100	9.0	139,864	8.7	154,279	8.3	175,542	7.9
Depreciation & Amort.	158,751	12.7	170,473	12.1	181,762	11.3	195,801	10.6	211,899	9.5
Interest on Long-Term Debt (Net)	56,906	4.5	60,446	4.3	65,547	4.1	72,914	4.0	92,485	4.1
Other	101,399	8.1	113,755	8.1	122,847	7.7	124,339	6.8	144,311	6.5
Net Margins	139,861	11.2	148,093	10.5	171,147	10.7	199,170	10.8	169,276	7.5

	1975		1976		1977		1978		1979	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$2,867,288	100.0	$3,436,513	100.0	$4,105,986	100.0	$4,851,705	100.0	$5,514,270	100.0
Cost of Power	1,712,989	59.7	2,126,877	61.9	2,620,763	63.8	3,189,470	65.7	3,672,897	66.6
Operation and Maintenance	245,237	8.6	263,649	7.7	300,200	7.3	340,134	7.0	392,919	7.1
Administrative and General	199,490	7.0	232,464	6.7	257,984	6.3	291,054	6.0	325,121	5.9
Depreciation & Amortization	229,959	8.0	250,686	7.3	274,547	6.7	301,942	6.2	331,899	6.0
Interest on Long-Term Debt (Net)	119,100	4.1	143,550	4.2	171,016	4.2	203,156	4.2	245,532	4.5
Other	174,190	6.1	178,295	5.2	189,794	4.6	210,877	4.4	203,130	3.7
Net Margins	186,323	6.5	240,992	7.0	291,682	7.1	315,072	6.5	342,772	6.2

	1980		1981		1982		1983		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$6,529,782	100.0	$7,705,652	100.0	$8,955,397	100.0	$9,854,024	100.0	$10,811,893	100.0
Cost of Power	4,449,392	68.1	5,380,501	69.8	6,246,011	69.7	6,798,822	69.0	7,379,805	68.2
Operation and Maintenance	453,149	6.9	495,969	6.4	561,936	6.3	586,365	6.0	625,866	5.8
Administrative and General	362,969	5.6	407,395	5.3	456,511	5.1	495,842	5.0	529,564	4.9
Depreciation & Amortization	364,704	5.6	404,520	5.3	445,704	5.0	481,749	4.9	518,103	4.8
Interest on Long-Term Debt (Net)	295,524	4.5	356,530	4.6	418,765	4.7	467,150	4.7	510,922	4.7
Other	248,746	3.8	247,832	3.2	310,936	3.5	323,060	3.3	363,591	3.4
Net Margins	355,298	5.5	412,905	5.4	515,534	5.7	701,036	7.1	884,042	8.2

Most of the revenue collected by REA power supply borrowers is used for power production and to purchase wholesale power from other utilities. Increases in power production expenses are mainly due to increases in the cost of fuel.

Chart E-6

DISPOSITION OF THE REVENUE DOLLAR

REA POWER SUPPLY BORROWERS

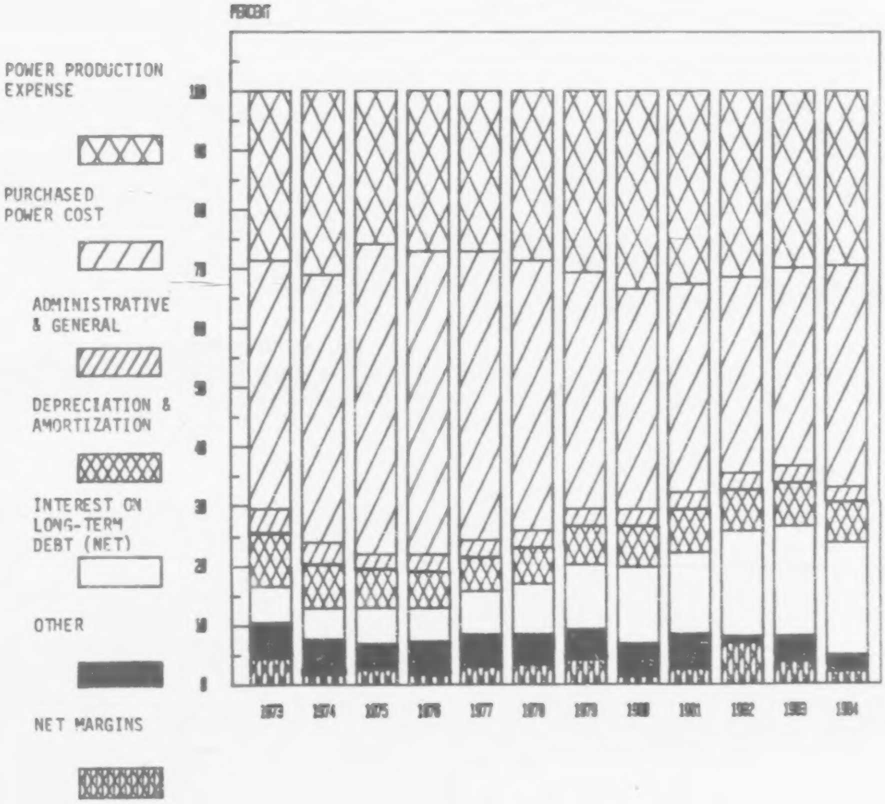


TABLE E-6

DISPOSITION OF THE REVENUE DOLLAR: REA POWER SUPPLY BORROWERS
(Dollars in Thousands)

	1970		1971		1972		1973		1974	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$ 282,949	100.0	$ 353,718	100.0	$ 419,812	100.0	$ 496,813	100.0	$ 671,272	100.0
Power Production expense	75,626	26.7	95,373	27.0	122 602	29.2	141,215	28.4	208,643	31.1
Cost of Purchased Power	107,353	37.9	142,465	40.3	164,320	39.1	209,422	42.2	302,669	45.1
Administrative and General	14,390	5.1	16,161	4.6	17,890	4.3	19,947	4.0	23,778	3.5
Depreciation & Amortization	34,280	12.1	39,015	11.0	42,306	10.1	44,439	8.9	50,115	7.5
Interest on Long-Term Debt (Net)	21,202	7.5	23,900	6.7	27,777	6.6	29,817	6.0	35,551	5.3
Other	25,768	9.2	27,925	7.9	30,307	7.2	30,302	6.1	39,311	5.8
Net Margins	4,330	1.5	8,879	2.5	14,610	3.5	21,671	4.4	11,205	1.7

	1975		1976		1977		1978		1979	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$1,020,400	100.0	$1,289,355	100.0	$1,696,339	100.0	$2,187,001	100.0	$2,547,242	100.0
Power Production Expense	264,262	25.9	345,874	26.8	454,036	26.8	623,201	28.5	779,925	30.6
Cost of Purchased Power	532,211	52.1	662,279	51.4	833,160	49.1	1,000,883	45.8	1,013,511	39.8
Administrative and General	29,163	2.8	37,511	2.9	46,751	2.8	60,075	2.7	74,067	2.9
Depreciation & Amortization	61,783	6.1	77,559	6.0	96,944	5.7	129,430	5.9	168,949	6.6
Interest on Long-Term Debt (Net)	62,027	6.1	71,398	5.6	120,122	7.1	183,175	8.4	269,294	10.6
Other	46,594	4.6	71,120	5.5	96,697	5.7	116,059	5.3	141,012	5.5
Net Margins	24,360	2.4	23,614	1.8	48,629	2.8	74,178	3.4	100,484	4.0

	1980		1981		1982		1983		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$3,177,001	100.0	$4,089,724	100.0	$5,026,911	100.0	5,882,166	100.0	$7,190,267	100.0
Power Production Expense	1,062,096	33.4	1,327,829	32.5	1,577,119	31.4	1,763,088	30.0	2,129,566	29.6
Cost of Purchased Power	1,175,428	37.0	1,450,363	35.4	1,656,483	33.0	1,956,567	33.3	2,677,263	37.3
Administrative & General	96,210	3.0	114,931	2.8	141,768	2.8	157,404	2.7	187,043	2.6
Depreciation & Amortization	223,829	7.0	280,775	6.9	357,404	7.1	424,158	7.2	491,274	6.8
Interest on Long-term Debt (Net)	411,407	12.9	564,230	13.8	909,854	18.1	1,108,890	18.8	1,360,354	18.9
Other	166,352	5.4	245,505	6.0	46,485	0.9	259,040	4.4	184,891	2.6
Net Margins	41,679	1.3	106,091	2.6	337,798	6.7	213,019	3.6	159,876	2.2

ELECTRIC PROGRAM

Most of the power distributed by rural electric systems is purchased from investor-owned utilities (IOU's) and publicly-owned utilities. However, there has been a long-term trend toward REA borrowers generating more of their consumers' power needs.

Chart E-7

SOURCES OF WHOLESALE POWER

REA ELECTRIC BORROWERS

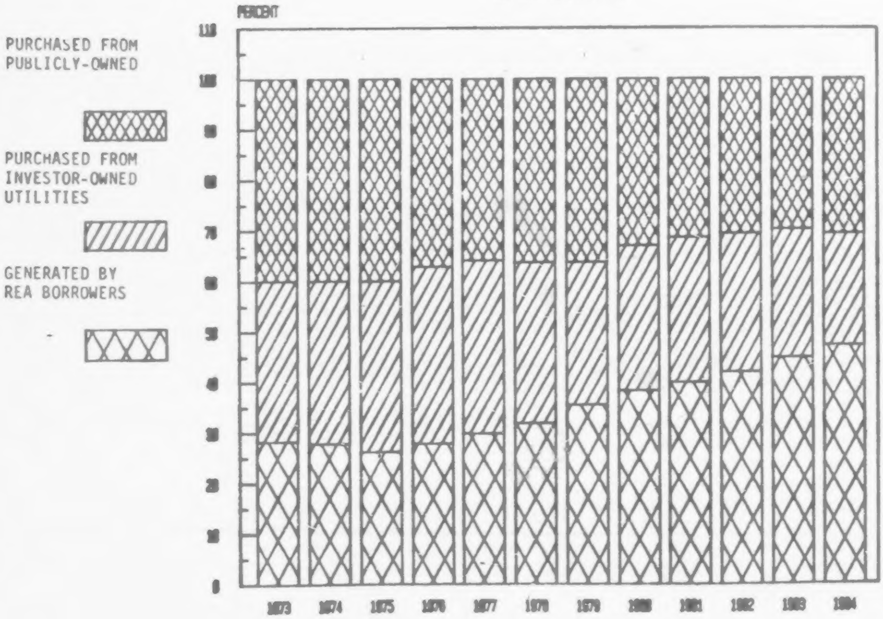


TABLE E-7 Sources of Wholesale Power for REA Electric Borrowers

Year	Generated By REA Borrowers		Purchased from Investor-Owned Utilities		Purchased from Other Public Sources	
	mWh	Percent	mWh	Percent	mWh	Percent
1970	20,637,751	26.3	25,375,456	32.3	32,524,169	41.4
1971	27,759,662	29.6	30,608,486	32.6	35,474,480	37.8
1972	32,290,340	31.0	34,153,465	32.7	37,832,238	36.3
1973	32,045,118	28.3	35,921,217	31.8	45,103,734	39.9
1974	32,795,053	27.7	38,515,457	32.5	47,057,050	39.8
1975	33,462,818	26.4	42,711,448	33.8	50,351,794	39.8
1976	38,660,059	28.0	48,100,273	34.8	51,498,254	37.2
1977	46,014,515	29.8	53,047,436	34.4	55,176,645	35.8
1978	52,472,215	31.9	52,220,422	31.8	59,725,947	36.3
1979	60,181,476	35.7	47,420,697	28.1	61,126,358	36.2
1980	69,536,829	38.2	52,614,304	28.9	59,864,121	32.9
1981	77,231,104	40.0	55,199,574	28.6	60,608,796	31.4
1982	81,568,123	42.0	53,083,098	27.4	59,372,827	30.6
1983	93,058,714	44.8	52,478,609	25.3	59,946,870	29.9
1984*	106,753,172	47.2	49,651,328	22.0	69,698,465	30.8

Preliminary

The main trends regarding the type of plant that rural telephone systems are building to serve their subscribers are: (a) buried cable is quickly replacing aerial plant and (b) central office equipment is increasing as a percentage of the total.

Chart E-8

TYPE OF PLANT IN SERVICE

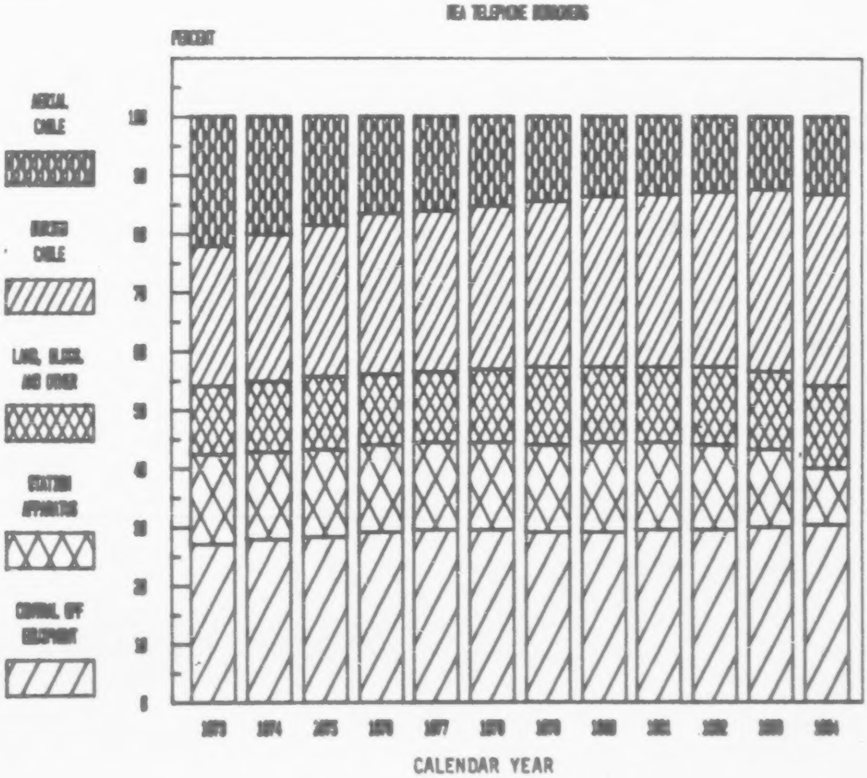


Table E-8

TYPE OF PLANT IN SERVICE
REA TELEPHONE BORROWERS
(Dollars in Thousands)

	1970		1971		1972		1973		1974	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Aerial Plant	$560,411	29.7	$565,955	27.0	$578,031	24.5	$603,435	22.3	$629,171	20.3
Buried Cable	346,736	18.4	435,379	20.7	530,030	22.4	639,646	23.7	766,162	24.7
Land, Buildings and Other	235,553	12.4	259,815	12.4	282,988	12.0	318,415	11.8	379,098	12.2
Station Apparatus	274,595	14.6	304,952	14.5	346,076	14.7	406,770	15.1	469,224	15.1
Central Office Equipment	469,395	24.9	532,629	25.4	623,071	26.4	731,129	27.1	858,464	27.7
Total	$1,886,690	100.0	$2,098,730	100.0	$2,360,196	100.0	$2,699,395	100.0	$3,102,119	100.0

	1975		1976		1977		1978		1979	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Aerial Plant	$646,194	18.5	$ 677,880	16.7	$ 770,373	16.3	$ 823,309	15.3	$ 881,086	14.5
Buried Cable	910,440	26.0	1,110,117	27.4	1,283,449	27.2	1,492,621	27.7	1,724,348	28.4
Land, Buildings and Other	426,827	12.2	489,938	12.1	580,679	12.3	678,351	12.6	788,006	13.0
Station Apparatus	520,577	14.9	598,480	14.8	703,181	14.9	810,473	15.1	918,001	15.1
Central Office Equipment	992,808	28.4	1,176,667	29.0	1,383,950	29.3	1,577,726	29.3	1,763,945	29.0
Total	$3,496,846	100.0	$4,053,082	100.0	$4,721,632	100.0	$5,382,480	100.0	$6,075,386	100.0

	1980		1981		1982		1983*		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Aerial Plant	$ 942,358	13.7	$ 993,164	13.1	$1,082,725	12.8	$1,144,646	12.6	$1,274,846	13.1
Buried Cable	1,990,426	29.0	2,245,791	29.6	2,524,514	30.0	2,795,283	30.9	3,225,691	33.0
Land, Buildings and Other	900,231	13.1	996,291	13.1	1,122,753	13.3	1,215,307	13.4	1,362,515	14.0
Station Apparatus	1,035,624	15.1	1,118,827	14.8	1,222,583	14.5	1,190,245	13.1	942,570	9.7
Central Office Equipment	2,001,295	29.1	2,224,379	29.4	2,476,062	29.4	2,714,724	30.0	2,955,645	30.2
Total	$6,869,934	100.0	$7,578,452	100.0	$8,428,637	100.0	$9,060,205	100.0	$9,761,267	100.0

* Revised

An increasing percentage of the revenue collected by REA telephone borrowers has been obtained from toll revenues. Local service revenues have decreased in relative importance.

Chart E-9

SOURCES OF REVENUES

REA TELEPHONE BORROWERS

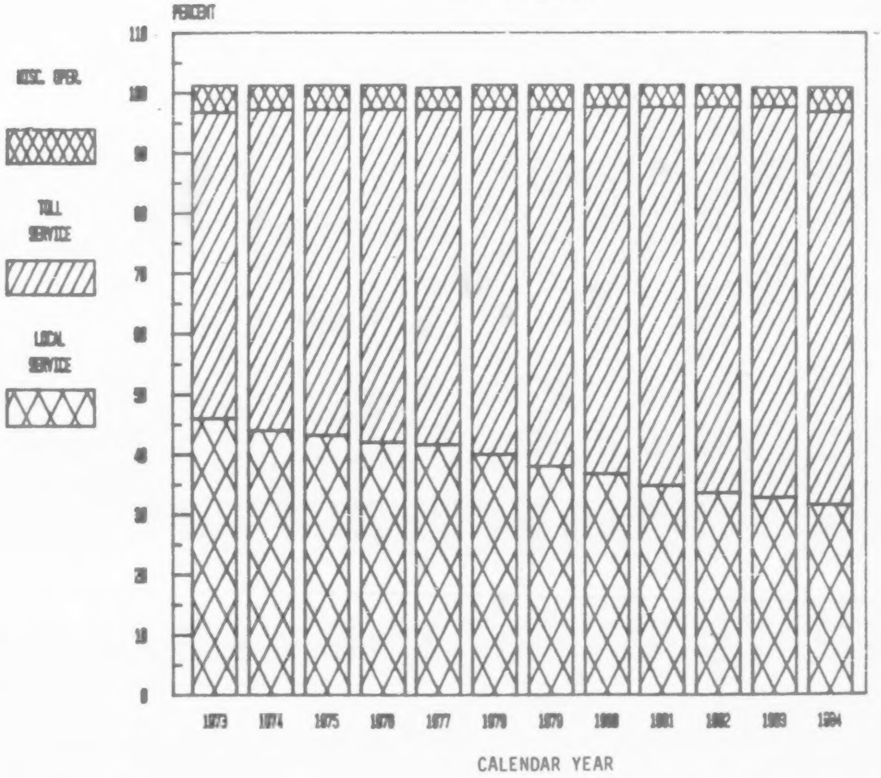


Table E-9

SOURCES OF REVENUES, REA TELEPHONE BORROWERS
(Dollars in Thousands)

	1971		1972		1973		1974		1975	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Local Service Revenue	$202,290	49.7	$224,915	48.4	$256,792	46.2	$291,894	44.1	$325,894	43.3
Net Toll Revenue	192,103	47.2	224,812	48.4	280,556	50.5	349,839	53.0	406,649	54.0
Misc. Operating Revenues	15,835	3.9	17,927	3.8	21,472	3.9	23,132	3.5	25,928	3.4
Uncollectable Operating Revenues	2,823	0.6	2,890	0.6	3,502	0.6	4,366	0.6	5,371	0.7
Total Operating Revenues	$407,405	100.0	$464,764	100.0	$555,318	100.0	$659,732	100.0	$753,100	100.0

	1976		1977		1978		1979		1980	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Local Service Revenue	$377,349	42.0	$ 449,804	41.4	$ 522,406	40.0	$ 586,323	38.1	$ 648,608	36.9
Net Toll Revenue	497,544	55.3	606,795	55.8	748,912	57.4	913,310	59.3	1,066,488	60.7
Misc. Operating Revenues	30,125	3.3	36,164	3.3	42,157	3.2	49,456	3.2	54,980	3.1
Uncollectable Operating Revenues	5,683	0.6	6,159	0.5	8,213	0.6	9,346	0.6	12,336	0.7
Total Operating Revenues	$899,335	100.0	$1,086,604	100.0	$1,305,262	100.0	$1,539,743	100.0	$1,757,740	100.0

	1981		1982		1983*		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Local Service Revenue	$ 709,132	34.7	$ 798,273	33.4	$ 862,463	32.6	$ 910,039	31.3
Net Toll Revenue	1,284,666	62.9	1,535,565	64.3	1,716,767	65.0	1,909,122	65.6
Misc. Operating Revenues	61,498	3.0	70,237	2.9	77,265	2.9	102,417	3.5
Uncollectable Operating Revenues	13,231	0.6	15,228	0.6	13,990	0.5	11,384	0.4
Total Operating Revenues	$2,042,065	100.0	$2,388,847	100.0	$2,642,505	100.0	$2,910,194	100.0

* Revised

The major expenses of rural telephone borrowers have been relatively stable as a percent of their total revenue: there have been no dramatic trends among any of the major expense items.

Interest on long-term debt, like other items has been stable--accounting for about ten percent of telephone borrower revenue for the past twenty years.

Chart E-10

DISPOSITION OF THE REVENUE DOLLAR

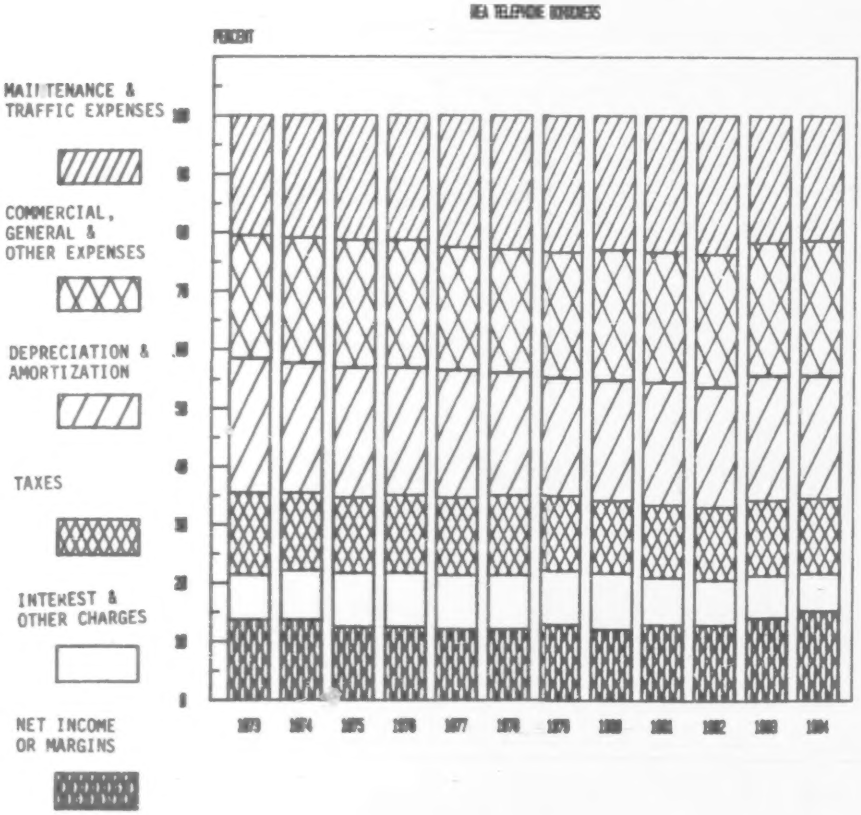


Table E-10

DISPOSITION OF THE REVENUE DOLLAR
REA TELEPHONE BORROWERS
(Dollars in Thousands)

	1971		1972		1973		1974		1975	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$407,405	100.0	$464,764	100.0	$555,318	100.0	$659,732	100.0	$753,100	100.0
Maintenance & Traffic Expense	84,447	20.7	96,362	20.7	114,815	20.7	139,139	21.1	162,191	21.5
Commercial, General & Other	84,579	20.8	98,434	21.2	116,201	20.9	139,047	21.1	162,765	21.6
Depreciation & Amortization	97,600	24.0	110,586	23.8	127,728	23.0	146,475	22.2	166,709	22.1
Taxes	55,464	13.6	61,892	13.3	76,440	13.8	87,866	13.3	97,440	13.0
Interest on Long-term Debt (Net)	30,064	7.4	33,751	7.3	41,246	7.4	53,830	8.2	66,202	8.8
Other Fixed Charges	2,135	0.5	3,504	0.8	5,346	0.9	7,364	1.1	7,575	1.0
Other Income & Deductions (Net)	(2,755)	(0.7)	(2,644)	(0.6)	(3,259)	(0.5)	(5,250)	(0.8)	(5,238)	(0.7)
Net Income or Margin	55,872	13.7	62,879	13.5	76,801	13.8	91,261	13.8	95,456	12.7

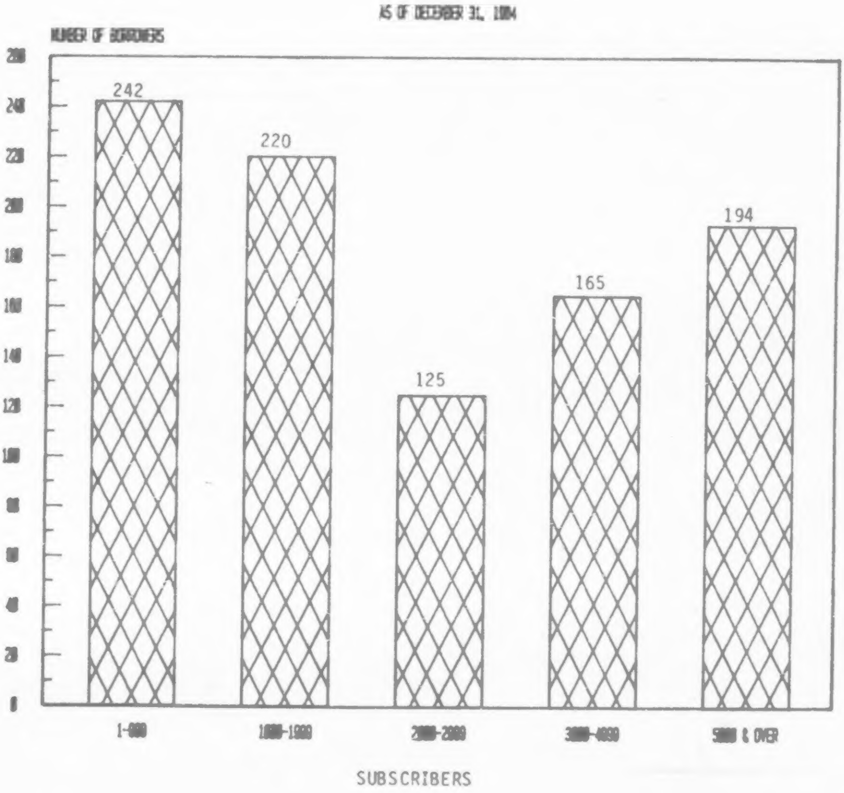
	1976		1977		1978		1979		1980	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$899,335	100.0	$1,086,604	100.0	$1,305,262	100.0	$1,539,743	100.0	$1,757,740	100.0
Maintenance & Traffic Expense	192,993	21.5	242,908	22.4	298,834	22.9	357,938	23.3	405,560	23.1
Commercial, General & Other	194,720	21.7	231,746	21.3	277,085	21.2	329,888	21.4	387,127	22.0
Depreciation & Amortization	195,087	21.7	232,252	21.4	270,383	20.7	312,337	20.3	361,059	20.5
Taxes	120,501	13.4	147,213	13.5	178,101	13.7	196,064	12.7	222,568	12.7
Interest on Long-term Debt (Net)	85,705	9.5	101,997	9.4	117,456	9.0	140,605	9.1	167,764	9.6
Other Fixed Charges	4,841	0.5	6,662	0.6	11,536	0.9	18,920	1.2	21,701	1.2
Other Income & Deductions (Net)	(6,909)	(0.8)	(7,659)	(0.7)	(8,940)	(0.7)	(15,598)	(1.0)	(24,395)	(1.4)
Net Income or Margin	112,397	12.5	131,485	12.1	160,807	12.3	199,589	13.0	216,356	12.3

	1981		1982		1983*		1984	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total Operating Revenue	$2,042,065	100.0	$2,388,847	100.0	$2,642,505	100.0	$2,910,194	100.0
Maintenance & Traffic Expense	477,895	23.4	567,870	23.8	579,971	21.9	617,672	21.2
Commercial, General & Other	450,339	22.1	540,339	22.6	595,971	22.5	673,473	23.1
Depreciation & Amortization	423,536	20.8	483,498	20.3	557,648	21.1	603,913	20.8
Taxes	258,441	12.7	299,197	12.5	341,171	12.9	374,059	12.9
Int. on LT Debt (Net)-Regulated	192,568	9.4	215,923	9.0	231,580	8.8	274,370	8.5
Other Fixed Charges	16,657	0.8	13,667	0.6	12,495	0.5	12,872	0.4
Other Income & Deductions (Net)	(39,027)	(2.0)	(45,240)	(1.9)	(44,707)	(1.7)	(64,916)	(2.2)
Net Income or Margin	261,656	12.8	313,593	13.1	369,061	14.0	445,751	15.3

*Revised

Most REA telephone borrowers are quite small businesses, in terms of the number of subscribers they serve. As of December 31, 1984, the average REA telephone borrower served 5,018 subscribers with an average of 5.5 subscribers per route mile.

Chart E-11 SUBSCRIBERS SERVED PER REA TELEPHONE BORROWER



Selected operating ratios of borrowers for 1984 and the four prior years are presented below. The ratios of total operating revenues and net operating income or margin to average plant in service show an increase from 27.0 to 30.9 and from 5.9 to 6.8 respectively, in a comparison of 1980 with 1984. The ratios of maintenance and depreciation expenses have also shown increases in this period. The accrual ratio in the five-year period has decreased slightly form 89.1 in 1980 to 86.1 in 1984.

Table E-11

OPERATING RATIOS OF REA TELEPHONE BORROWERS

	1980	1981	1982	1983	1984
Dollars per subscriber:					
Investment (total telephone plant)	$1,733.35	$1,836.36	$1,957.29	$2,059.24	$2,147.66
Plant in service	1,611.77	1,732.24	1,854.25	1,957.36	2,056.34
Plant in serv. less dep. and amort. res.*	1,205.89	1,276.81	1,338.14	1,372.63	1,404.88
Total assets	1,525.88	1,609,60	1,715.43	1,806.47	1,908.38
Percent of average plant in service:					
Total operating revenues	27.0	28.4	29.7	30.7	30.9
Maintenance expenses	5.5	5.9	6.3	6.0	5.7
Depreciation expenses	5.4	5.7	5.9	6.3	6.2
All other operating expenses and taxes	10.2	10.8	11.3	11.8	12.1
Net Operating income or margin	5.9	6.0	6.2	6.6	6.8
Percent of total operating revenue:					
Total operating deductions and Fixed charges (accrual ratio)	89.1	89.1	88.8	87.7	86.9
Other income and deductions (net)	1.4	1.9	1.9	1.7	2.2
Net income or margin-regulated	12.3	12.8	13.1	14.0	15.3

* Prior to 1984, did not include amortization.

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MONDAY, MARCH 17, 1986.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

WITNESSES

ALAN TRACY, ACTING ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES

BERT W. HAWKINS, ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

JAMES W. GLOSSER, ASSOCIATE ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

JOHN K. ATWELL, DEPUTY ADMINISTRATOR, VETERINARY SERVICES, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

JAMES O. LEE, JR., DEPUTY ADMINISTRATOR, ANIMAL DAMAGE CONTROL, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

HARVEY L. FORD, JR., DEPUTY ADMINISTRATOR, PLANT PROTECTION AND QUARANTINE, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

LARRY B. SLAGLE, DEPUTY ADMINISTRATOR FOR MANAGEMENT AND BUDGET, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

SAMUEL V. LADD, DIRECTOR, BUDGET AND ACCOUNTING DIVISION, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Mr. WHITTEN. The Committee will come to order.

We have today the Animal and Plant Health Inspection Service. From time to time we have occasion to point out the importance of agriculture. I was next door where we have hearings going on for public works and the Department of Energy. I told them I had to leave to come here so we could protect the two and a half percent of the people on farms, the rest could do something else.

It is nice to have you here. We have with us Mr. Tracy, Mr. Hawkins and their associates. For anybody who is new, we would be glad to have biographical sketch for the record.

Mr. Tracy?

Mr. TRACY. I would like to thank you for your courtesy and that of the committee and for all your support over the past year. This is the seventh of the seven agencies that report to my office, so after today we are done with this first round, and I want to thank you and the committee again.

[The biographical sketch of Dr. Glosser follows:]

BIOGRAPHICAL SKETCH FOR JAMES W. GLOSSER

Dr. James W. Glosser was appointed Associate Administrator of the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS), on March 3, 1985. Prior to that time he had served as Assistant to the Administrator for APHIS since December 27, 1983.

Dr. Glosser has an outstanding record of service in the fields of animal and public health. For six years, prior to joining USDA, he was Administrator of Montana's Animal Health Division. He has also served as State Veterinarian, State Public Health Veterinarian, and in other capacities for the State of Montana.

From time to time, Dr. Glosser has served on special projects for the National Cattlemen's Association and USDA. He was a veterinary epidemiologist with the U.S. Public Health Service, Center for Disease Control in Atlanta, Georgia, from 1966 to 1973.

A native of Helena, Montana, Dr. Glosser earned his Doctor of Veterinary Medicine degree at Washington State University, and a Masters of Public Health degree at the University of Minnesota.

Dr. Glosser currently resides in Alexandria, Virginia, with his wife, Julie. The Glossers have three grown children—two sons and a daughter.

Mr. WHITTEN. Mr. Tracy, the Committee insisted some years ago that we have a representative of the Secretary's Office at our hearings. We will be glad to hear from you now, Mr. Hawkins.

Mr. HAWKINS. Thank you, Mr. Chairman, and members of the committee.

If the chair so chooses, I will make my remarks brief and then submit the full remarks for the record.

Mr. WHITTEN. Your full remarks will be in the record.

INTRODUCTION OF ASSOCIATES

Mr. HAWKINS. I would like to introduce a new member of our staff who has not appeared before, Dr. Glosser, my Associate Administrator. With me also are Dr. Atwell, Deputy Administrator for Veterinary Services; Mr. Ford, Deputy Administrator for Plant Protection and Quarantine; Mr. Slagle, Deputy Administrator for Management and Budget; and Mr. Ladd, Director of the Budget and Accounting Division. Also with me is our Deputy Administrator for Animal Damage Control, Mr. Lee.

BUDGET PRIORITIES

Many things have changed, as you mentioned, since we met a year ago and Gramm-Rudman is one of these. Now in the prioritizing process we have to think of the approaching deficit limits mandated under the law. We face uncertain funding situations in the next few years, and this makes implementing our budget more difficult than it has been in the past.

With that, it becomes more important to me as the Administrator of the Animal and Plant Health Inspection Service to emphasize funding for the three basic functions that I see as the Federal Government's primary responsibility. These functions do not fall in the purview of the state or the locality and include the areas of surveillance, enforcement, and exotics. As we prepared our budget we kept these three primary federal functions in mind.

FISCAL YEAR 1985 ACCOMPLISHMENTS

To briefly review 1985, we had some notable successes in the Animal and Plant Health Inspection Service. We had a major grasshopper infestation in 13 western states. We worked on about 14 million acres, issued 87 contracts, and spent $21.1 million of federal funds to control grasshoppers. All in all I am proud of the work that APHIS did in that area. We had to complete our work in a ten week period, and one newspaper reporter in Idaho said that the Department of Defense would do well to see how the Animal and Plant Health Inspection Service mobilized its forces and reacted to an emergency.

Mr. WHITTEN. You didn't tell them how long this Committee had to get after you before you did it, did you?

Mr. HAWKINS. No, sir.

Mr. WHITTEN. I can understand that. Go ahead.

Mr. HAWKINS. I greatly appreciate this committee's assistance in securing funding for grasshopper control.

BRUCELLOSIS

Progress continued in other areas last year. We completed the eradication of boll weevil in North Carolina and South Carolina. We continued to have good support in brucellosis, an area that I know that you have interest in. We met all the goals that this committee established in 1985. There are now 23 Free States and 21 Class A States. I am most happy to report that the State of Mississippi was the first state to come out of the doldrums of Class C and now is a Class B state. We have high hopes that before the year is out it will achieve Class A status. I think the program is going along very well and we appreciate the support that you and your committee have given us in that area.

SCREWWORM

The sterile screwworm fly barrier is in place in Southern Mexico. We had one outbreak in 1985 to the north of the barrier. We continue to monitor the influx and movement of cattle from the Guatemalan border and the Yucatan through the barrier and into Northern Mexico. There are some 600,000 cattle traversing this area annually through our border stations and they represent a constant threat.

We have completed the feasibility study that Congress directed us to conduct last year. It shows that it is a viable option to look at some point in time in proceeding on through Central America. FAO is involved very heavily in that area now in the Medfly eradication program that I will speak of later.

PEST INTRODUCTIONS

Both Medfly and Africanized bees were threats that we handled rapidly and quite well. The Medfly invaded Florida and we got on top of that in short order and contained it with the one very small outbreak.

The Africanized bee in California was transported from South America in drilling pipe. We learned a lot about the Africanized bee. So did the State of California. I think we are in a better position to face future threats.

Port of entry agricultural inspection is a high priority program we conduct to prevent the introduction of pests and diseases through our borders. We continue to intercept thousands of pests and diseases and prohibit the importation of products which can carry them. We are now improving some of our quarantine activities. For example, we have x-ray equipment in place in Puerto Rico to look at airline passenger baggage. We will be putting x-ray equipment in Hawaii airports. Just in the last two weeks we became aware of a new piece of x-ray equipment that identifies particular fruits and meat products better than the equipment that we now have. So we anticipate being able to do more in the area of protecting our airports.

ANIMAL DAMAGE CONTROL

I am sure that you are aware that Congress had to make a tough decision last year to transfer the animal damage control program from Interior to the Department of Agriculture. We are proud of where we are now in accomplishing that transfer. All of the people have now been transferred to APHIS, are on our payroll, and are operating under our guidance. We have been meeting concurrently with the Department of the Interior and anticipate completing the transfer by April 1, which was our target when the transfer was initiated.

In that regard, we are anticipating operating the program with two regional offices.

ANIMAL DAMAGE CONTROL REDUCTION

Mr. WHITTEN. What is the basis for that? This is brand new to you. The Interior Department didn't do too good a job. I think part of it is limitations placed by those who think we shouldn't get rid of these pests, even though they are damaging to public health in many cases, and to agriculture and forests. What offices are you keeping and what offices are you getting rid of?

Mr. HAWKINS. West of the Mississippi the office will be in Denver. We will have one East of the Mississippi River.

Mr. WHITTEN. If you are just going to have two, why don't you operate it out of Washington?

Mr. HAWKINS. We find that once we break away from the hold of Washington, we get better responses from the various states.

BUDGET REDUCTION PROPOSALS

Mr. WHITTEN. You do, but I wonder about the Congress. If you have regional offices we can't get to people doing the work and they can't get to us. It strikes me that you need more than two area offices. I know that you realize they have been spending too much money—that you have to cut it down from $19 to $10 million.

What makes you think you can do the job for half as much as Interior did? Is something associated with agriculture not entitled to as much as what the others got? How do the employees feel when you cut them in half? It took us a long time to get that work where it should be. The people in Interior have a different outlook than those in agriculture.

Blackbirds are about to take over a section of my district around Tupelo. We have wrestled with it for a number of years, but it looks to me like you are cutting out any hope. If you are going to cut down this much, I wonder if you need anything. You told us what you had to do on grasshoppers, so you cut it out. Everything

Congress put in was needed by various sections of this country and I think the Members of Congress know more what is going on in their areas than any of you in the Department.

Each year you eliminate everything we have put in there as representatives of our people. Why?

Mr. HAWKINS. It is a matter of prioritizing, sir.

Mr. WHITTEN. Yes, but you put your priorities ahead of ours. How is that?

Mr. HAWKINS. It is difficult to answer, sir.

Mr. WHITTEN. It is not so difficult to answer. It is just hard to have to put it in print.

Mr. HAWKINS. Our feeling, Mr. Chairman, is that the government has been involved in some areas where the states and the industry could do the job.

Mr. WHITTEN. Right now we are having to deal with our colleagues on the other side of the Capitol on the payment that is due to participants in the new farm bill, who can sign up and get cash instead of having to farm. We passed a bill, a resolution. The Senate in turn passed it back and cut out an amount. Last December we provided $2.7 billion for FmHA operating loans. That was in December. They tied it up over in the Senate claiming that due to a legislative provision after the appropriations, which didn't even mention the appropriations, $1.7 was all that was available.

I don't think any lawyer would agree with that but if it were, what is the excuse not to use the $1.7 to carry out obligations that we have? In analyzing it I find it is a Senate rule which provides they can't increase something without cutting an equal amount someplace else.

The administration cut your Department so as to increase the carryover in unspent funds for the military. You read in the paper where they have cut the military. That was to reduce the increase they asked for. So the priority of the Administration and OMB is to cut the things which protect public health and give the money to the military. It now has $244 billion in carryover funds and they want us to increase that to $299 billion. So, somewhere, the priorities are out of order in my book.

I yield to my colleague from Kentucky.

Mr. NATCHER. Thank you, Mr. Chairman.

I have no questions. Thank you very much.

APHIS BUDGET NEEDS

Mr. WHITTEN. The 1987 budget proposes to cut the Soil Conservation Service by 3700 people, from $666 million to $350 million. I asked the people from SCS, if they believed in that, to raise their right hand. Nobody raised a hand, but I am not going to tell the President. I won't embarrass you the same way.

I am asking you, however, what you need now. That frees you from having to support the figures that you have given us. What do you think you need to carry on what you have been doing and protect the health of the American people?

Mr. HAWKINS. Sir, that is a broad question.

Mr. WHITTEN. I meant it to be that way.

Mr. HAWKINS. I would have to——

Mr. **Whitten**. You are like the Budget Officer when he gets one of these kinds of questions—is he a cousin of yours or something?

Mr. **Hawkins**. No sir, but if he would care to speak up, I would be glad to defer to him.

BUDGET PROCESS

Mr. **Whitten**. How does your budget process work? I ask this for the record. I am familiar with it. I am talking about the buildup of what you come here with, when and where does it start, how do you do it, tell us how it works?

Mr. **Dewhurst**. The Department received an estimate from Animal and Plant Health Inspection Service last July as to the funding they required in their judgment, for FY 87. That figure was about $340.2 million. The department reviewed that estimate and submitted its budget to OMB on September 15th. The department's estimate for Animal and Plant Health Inspection Service was $350.0 million, an increase of $10 million over the agency estimate. OMB of course reviews those estimates. They get back to the department in late November or early December with their decisions on the various programs and budgets.

Mr. **Whitten**. Would you supply for the record the figures involved? Also provide information showing the effect of Gramm-Rudman on present operations of the agency.

Mr. **Dewhurst**. Yes, sir.

[The information follows:]

Animal and Plant Health Inspection Service
FY 198[illegible] Appropriation History
(dollars in thousands)

Plant disease and pest control:	Agency Estimates	Department Estimate	OMB Allowance
Agricultural quarantine inspection	57,599	57,599	54,367
International programs	2,622	2,622	2,118
Pest detection	6,177	6,177	3,938
Plant protection programs:			
Biocontrol	4,006	4,006	3,276
Boll weevil	1,104	1,104	652
Golden nematode	954	954	897
Grasshopper & Mormon cricket	1,497	1,497	956
Gypsy moth	5,171	9,571	5,125
Imported fire ant	1,365	1,365	0
Mediterranean fruit fly	21,159	21,159	8,512
Mexican fruit fly	2,490	2,490	1,512
Miscellaneous plant diseases and pests	1,283	1,283	1,131
Noxious weeds	222	222	0
Pink bollworm	1,558	1,558	1,035
Witchweed	6,041	6,041	0
Total, Plant disease and pest control	113,248	117,648	83,519
Animal disease and pest control:			
Animal disease detection	5,294	5,294	3,035
Animal health compliance and enforcement	14,000	14,000	13,858
Import-export	8,200	8,200	8,446
International programs	3,032	3,032	2,015
Veterinary biologics	8,698	8,698	8,610
Veterinary diagnostics	11,474	11,474	10,927
Animal health programs:			
Brucellosis eradication	63,540	63,540	63,000
Cattle ticks	8,111	8,111	6,179
Foot-and-Mouth disease (Darien Gap)	2,220	2,220	2,215
Miscellaneous animal diseases and pests	2,500	2,500	1,997
National poultry improvement plan	219	219	217
Poultry diseases	836	836	630
Pseudorabies	2,300	2,300	0
Screwworm	55,000	55,000	28,396
Swine health protection	3,200	3,200	3,225
Tuberculosis eradication	4,400	4,400	3,905
Animal welfare	4,865	4,865	0
Horse protection	200	200	0
Total Animal disease and pest control	198,089	198,089	156,655
Animal damage control	22,924	22,924	10,000
Biotechnology	625	625	0
Citrus canker	0	3,350	0
Contingency Fund	3,000	5,000	2,982
Total, Salaries and Expenses	337,886	347,636	253,156

The FY 1987 budget was prepared by the administration to meet the deficit reduction target for FY 1987 set out by Gramm-Rudman-Hollings. In order to meet the FY 1986 target, this agency reduced the FY 1986 appropriated amounts by 4.3% as mandated by the Comptroller-General. A table of the FY 1986 reductions follows:

Animal and Plant Health Inspection Service
Salaries and Expenses
Balanced Budget and Emergency
Deficit Control Act Reduction

Project	1986 Estimate	Changes	Revised 1986 Estimate
1. Plant disease and pest control:			
Agricultural quarantine inspection	$54,555,000	-$2,346,000	$52,209,000
International programs	2,125,000	-92,000	2,033,000
Pest detection	3,951,000	-170,000	3,781,000
Plant protection programs:			
Biocontrol	3,287,000	-141,000	3,146,000
Boll weevil	3,037,000	-131,000	2,906,000
Golden nematode	1,000,000	-43,000	957,000
Grasshopper & Mormon cricket	17,891,000	-769,000	17,122,000
Gypsy moth	5,142,000	-221,000	4,921,000
Imported fire ant	5,774,000	-248,000	5,526,000
Mediterranean fruit fly	8,541,000	-367,000	8,174,000
Mexican fruit fly	1,517,000	-65,000	1,452,000
Miscellaneous plant pests	1,135,000	-49,000	1,086,000
Noxious weeds	784,000	-34,000	750,000
Pink bollworm	2,377,000	-102,000	2,275,000
Witchweed	4,695,000	-202,000	4,493,000
Total, Plant disease and pest control	115,811,000	-4,980,000	110,831,000
2. Animal disease and pest control:			
Animal disease detection	3,045,000	-131,000	2,914,000
Animal health compliance and enforcement	13,905,000	-598,000	13,307,000
Import-export inspection	8,475,000	-364,000	8,111,000
International programs	2,022,000	-87,000	1,935,000
Veterinary biologics	8,639,000	-372,000	8,267,000
Veterinary diagnostics	10,964,000	-472,000	10,492,000

Project	1986 Estimate	Changes	Revised 1986 Estimate
Animal health programs:			
Brucellosis	$69,731,000	-$2,998,000	$66,733,000
Cattle ticks	6,200,000	-267,000	5,933,000
Foot-and-mouth disease (Darien Gap)	2,223,000	-96,000	2,127,000
Miscellaneous animal diseases	2,004,000	-86,000	1,918,000
National poultry improvement plan	218,000	-9,000	209,000
Poultry diseases	632,000	-27,000	605,000
Pseudorabies	2,308,000	-99,000	2,209,000
Screwworm	33,008,000	-1,419,000	31,589,000
Swine health protection	3,236,000	-139,000	3,097,000
Tuberculosis eradication	3,918,000	-169,000	3,749,000
Animal welfare	4,836,000	-208,000	4,628,000
Horse protection	158,000	-7,000	151,000
Total, Animal disease and pest control	175,522,000	-7,548,000	167,974,000
3. Animal Damage Control	19,880,000	-855,000	19,025,000
4. Contingencies:			
(a) Plant disease and pest control	1,491,000	-64,000	1,427,000
(b) Animal disease and pest control	1,491,000	-64,000	1,427,000
Total, Contingencies	2,982,000	-128,000	2,854,000
Total	314,195,000	-13,511,000	300,684,000
Transfer to Departmental Administration and Office of Governmental and Public Affairs	+193,000	-8,000	+185,000
Total, Appropriation	$314,388,000	-$13,519,000	$300,869,000

Mr. **Dewhurst**. The budget comes out to about $255 million for this agency.

Mr. **Whitten**. I shouldn't ask you this. But am I right that when it gets back to the Department and has been scaled down you take things out that you think Congress will put back. Is that the way it works?

Mr. **Dewhurst**. Well——

Mr. **Whitten**. That is a deep subject, a well.

Mr. **Tracy**. It comes back as a total and also is delineated by program so those points are already made from OMB's perspective and then we have a chance to appeal.

Mr. **Whitten**. Unless you just say we are going to cut this out because Congress will put it back, I don't see—you couldn't spin a wheel and hit on those things like that.

Let the record show the witness said nothing. I want the record to show what these cuts are, and I want you to tell us what you will do to carry that out if we go along with the budget recommendation—what will be eliminated in each of these cases.

[The information follows:]

ACTIVITIES ELIMINATED OR REDUCED IN FISCAL YEAR 1987 BUDGET

Program	Reduction	Activities
Boll Weevil	−$2,385,000	Eradication programs in the Southeast and Southwest.
Grasshopper	−$16,935,000	New funding for control programs.
Imported Fire Ant	−$5,774,000	All regulatory, control, and surveillance.
Noxious Weeds	−$784,000	All eradication and demonstration projects.
Pink Bollworm	−$1,342,000	Surveillance and control.
Witchweed	−$4,695,000	All regulatory, control, and surveillance.
Brucellosis	−$6,731,000	Federal vaccination, secondary surveillance reduced.
Pseudorabies	−$2,308,000	Pilot eradication projects.
Screwworm	−$4,612,000	Sterile fly production reduced.
Animal Welfare	−$4,836,000	All surveillance and enforcement.
Horse Protection	−$158,000	All surveillance and enforcement.
Animal Damage Control	−$9,880,000	Nonagricultural animal damage control projects; agricultural damage projects reduced.

EMERGENCY PROGRAMS

Mr. **Whitten**. Reference is often made to the "SEE" approach in managing APHIS, "SEE" meaning surveillance, enforcement, and exotics. These functions are your top priorities. Do emergency programs such as citrus canker and avian influenza fall into these priorities?

Mr. **Hawkins**. The introduction of pests and diseases into the United States such as citrus canker and avian influenza are considered exotics by APHIS and are therefore given top priority.

Mr. **Whitten**. How do you decide which pest or disease introduction is an emergency and which is not? Also, how can a pest or disease start out as an emergency—like citrus canker—and then become not an emergency?

Mr. **Hawkins**. There are several criteria we consider when deciding whether a pest or disease introduction into the United States qualifies as an emergency. Factors include the economic significance of the pest or disease, the threat of rapid and/or widespread damage, and the ability of the States and industry to take action on the pest. If an emergency program becomes lengthier or more costly than expected, pressure may be placed on available resources including personnel and funds. If we have stopped the initial spread of the pest or disease, we may need to reassess the wisdom of continuing emergency funding.

Mr. **Whitten**. Since CCC money was made available for citrus canker in 1985, why wasn't it made available in 1986?

Mr. **Hawkins**. The increased emphasis on deficit reduction has caused us to reconsider our priorities. Based on that assessment, continued participation in the program was not deemed to be of sufficient priority so as to justify continued funding transfers from CCC.

Mr. **Whitten**. What problems happen from a program viewpoint when funding delays like this happen?

Mr. **Hawkins**. When funding delays occur, critical time is lost in the survey and control of pest or disease outbreaks. By the time control activities are eventually undertaken, extensive damage may have occurred. Additionally, we may lose the confidence and support of the States and industry if undue delays occur. Ultimately, successful completion of the program may require a lengthier involvement than would have been necessary had the delay not occurred, resulting in higher costs to the government in the long run.

Mr. **Whitten**. Do you believe that States can handle emergency pest or disease introductions with no USDA assistance?

Mr. **Hawkins**. The ability of individual States to handle emergency efforts to control the introduction of pests and diseases varies widely based on such factors as the nature of the pest or disease, the extent of spread, prior experience in carrying out eradication activities, and the amount of physical and monetary resources required to conduct a program of eradication, particularly if indemnification is required. In most cases, some USDA assistance, particularly technical advice, would be needed. Another important factor is the nature of the agricultural industry in the State where the pest or disease is introduced. A particular pest or disease may enter a State where it does not present an immediate threat. In such a case, the State may have little incentive to take action, increasing the need for Federal involvement.

Mr. **Whitten**. Do States have the full range of regulatory powers available to APHIS for controlling emergency pest or disease introductions?

Mr. **Hawkins**. States cannot impose regulations governing the interstate movement of animals and plants, or disease or pest hosts.

1985 REPORT

Mr. **Whitten**. The August 1985 report entitled "Protecting United States Agriculture from Foreign Pests and Diseases" states that increased funding now may go a long way in reducing the burgeoning need for emergency funds to combat introduction of exotic pests and diseases. Does the FY 1987 budget reflect that suggestion?

Mr. **Hawkins**. Given the current budget constraints, an increase along the lines suggested was not possible. However, we have sought to maintain funding for core programs, of which agricultural quarantine inspection is the highest priority.

Mr. WHITTEN. Has the agency taken any steps to develop a long-range budget plan to address the recommendations contained in the report?

Mr. HAWKINS. Yes, a 5-year plan has been drafted to identify ways to implement the bulk of the recommendations in the report. This plan will be considered during the budget development process each year.

Mr. WHITTEN. Has the agency, as recommended in the report, reassessed its spending priorities in order to take some immediate action on higher priority items?

Mr. HAWKINS. Within funds already available, we are implementing a number of items suggested in the report, such as expansion of the use of X-ray and screening devices, expansion of the detector dog program, and acceleration of a public information campaign.

Mr. WHITTEN. Has the Department sought authority to provide that APHIS could use funds obtained through fines to supplement its budget?

Mr. HAWKINS. No, it has not.

FISCAL YEAR 1987 BUDGET

Mr. WHITTEN. The FY 1987 budget request proposes reductions and elimination of various animal and plant inspection and control programs. Justification provided in most cases is that the States or other organizations are capable of assuming some or all of the responsibility for these efforts. What evidence do you have that the States or other organizations are capable of assuming these responsibilities and, further, that they have the capability to finance assumption of these responsibilities?

Mr. HAWKINS. In the past we have had the opportunity to join with the States and other organizations in cooperative programs which would indicate their capability to assume these responsibilities. For example, the brucellosis program is a highly successful cooperative effort. State and industry cooperation have made it possible to lower the incidence of brucellosis by 79% since 1960. In the case of the animal welfare program, every State has some type of general animal anti-cruelty law and many are moving to strengthen their laws. Also, the horse industry already regulates itself through the Designated Qualified Person program. Examples of plant protection programs where State and industry cooperation were essential components of program success include boll weevil, where growers in the southeast have, with APHIS assistance, virtually eradicated the pest from North and South Carolina; witchweed, where we have seen a substantial reduction in acres under quarantine in recent years; and citrus canker, where we have assisted Florida in carrying out efforts to eradicate the disease.

Mr. WHITTEN. Have these proposals been discussed with the States or organizations expected to assume these responsibilities?

Mr. HAWKINS. Some of these proposals have been discussed with the States and organizations. For example, States and industry have been consulted throughout the brucellosis phasedown planning sessions. As a general rule, we strive to maintain good communication between USDA, States and industry.

USER FEES

Mr. Whitten. At what level was it decided to impose user fees for some of the APHIS programs?

Mr. Hawkins. The agency estimates to the Secretary and department estimates to OMB proposed some user fees. Others were proposed later by the Office of Management and Budget.

Mr. Whitten. Please describe for the record, by program, the level of user fee proposed and how much revenue is anticipated.

[The information follows:]

Program	*Program Level/ Revenue*
Agricultural quarantine inspection	$1,800,000
Import-export inspections of animals	8,446,000
Veterinary biologics	8,610,000
Veterinary diagnostics	2,000,000
	20,856,000

Mr. Whitten. Has legislation establishing the user fees been submitted to Congress? Has it been introduced?

Mr. Hawkins. As of March 17, 1986, the APHIS user fee legislation has not yet been submitted to Congress or introduced by one of its members.

A-76 REVIEWS

Mr. Whitten. In the explanatory notes reference is made to a proposed decrease of $287,000 in the plant disease and pest control activities. Please identify for the record the specific activities you are proposing to accomplish through contracts and an explanation of the savings to be generated.

Mr. Hawkins. Although specific measures have not yet been implemented to accomplish the projected savings, an implementation task group has been formed for the purpose of reviewing activities of the agency to identify those which can be performed more cost-effectively by contracting with private industry. These are expected to consist primarily of maintenance-related functions such as custodial services and grounds maintenance at APHIS field offices.

CIVIL PENALTIES

Mr. Whitten. According to the explanatory notes, the average civil penalty for violations of the agricultural quarantine regulations is about $28. Do you consider that a sufficient penalty, considering the possible economic loss to producers and consumers?

Mr. Hawkins. The amount of the penalty depends not only on the nature of the violation but also on the ability of the passenger to pay the fine. The penalty needs to be high enough to serve as a deterrent and yet low enough so people will pay the fine on the spot. We have found that if the fines are too high, passengers will refuse to pay them, increasing the number of hearings. With those factors in mind, we consider the current penalty structure to be appropriate.

Mr. WHITTEN. Also according to the explanatory notes, the average penalty for violations found during maritime inspections is about $134. Do you consider this a sufficient deterrent?

Mr. HAWKINS. As with passenger violations, the penalty fee for cargo violations varies according to the nature of the violation. Fines are set at an amount which the shipping line can pay immediately and which acts as a deterrent to future violations. We consider the current schedule of fines to be appropriate.

IRRADIATION

Mr. WHITTEN. According to the explanatory notes, you expect the Food and Drug Administration to approve the use of irradiation as an alternative food treatment technique. Do you have an estimate of when FDA will do this?

Mr. HAWKINS. The Food and Drug Administration regulation to permit irradiation for fruits and vegetables for insect disinfestation was approved on December 12, 1985 by the Department of Health and Human Services. The regulations were then forwarded to the Office of Management and Budget and are currently awaiting final clearance.

COOPERATIVE NATIONAL PLANT PEST SURVEY AND DETECTION PROGRAM

Mr. WHITTEN. In the explanatory notes, reference is made to the cooperative national plant pest survey and detection program—an information system designed to enable institutions, industry, and farmers to retrieve information on plant pests. How accessible is the system to farmers?

Mr. HAWKINS. The information system is not directly accessible to the farmer, although reports are available to the farmers through the State Cooperative Extension Services or State Departments of Agriculture, both of which have direct access to the system.

Mr. WHITTEN. Will the system help farmers identify a particular problem and suggest control options and cost?

Mr. HAWKINS. These reports, identifying specific pest problems, will enable extension agents and other agricultural personnel to recommend control options and costs to farmers.

DATABASE MANAGEMENT SYSTEM

Mr. WHITTEN. You state in the explanatory notes that you will move a new database management system from the Fort Collins computer center to a private time-sharing facility in McLean, Virginia. Are you moving the system because it is cost-effective or more convenient to use?

Mr. HAWKINS. The relocation is not only cost-effective, but will provide a more "user-friendly" software environment. We have reduced the cost by sharing important hardware and software facilities with the National Pesticide Information Retrieval System. The co-location eliminates redundancy by providing the users with one point of access rather than two, thereby reducing costs and saving time.

Mr. WHITTEN. Will withdrawal of the system from the Fort Collins computer center cause the cost of other USDA users to increase at that center?

Mr. HAWKINS. Minimal financial impact is likely to occur due to the relocation. The charges to users at Fort Collins are determined on the rate of usage, not the number of users, and are adjusted throughout the year to maintain a nonprofit status for the Center. The survey system represented a very small percentage of computer usage compared to the other USDA agencies using Fort Collins.

Mr. WHITTEN. If the basis for this move is economic, please provide for the record any available analysis you might have in this regard.

Mr. HAWKINS. An economic analysis which will provide a detailed report on costs is now in the process of being completed. We will be happy to provide a copy when it is completed. The decision to move the database to McLean, Virginia, was made under the guidance and at the recommendation of the Office of Information Resources Management.

A major reason for the decision is the increased computer capabilities to be realized due to the co-locating; in particular, database software not available at Fort Collins will be available at the new facility.

BOLL WEEVIL

Mr. WHITTEN. According to the explanatory notes you are proposing a 70 percent reduction in the boll weevil program for fiscal year 1987, and you are expecting to end the eradication program in North and South Carolina in fiscal year 1986. What occurs if you are not able to complete the eradication in fiscal year 1986, as you were not able to in fiscal year 1985?

Mr. HAWKINS. We have every reason to believe that eradication will be achieved in fiscal year 1986. All signs continue to point toward that outcome.

Mr. WHITTEN. Will the States then be asked to assume the responsibility for eradication in fiscal year 1987, along with your proposal for them to assume the responsibility for surveillance and quarantine?

Mr. HAWKINS. Under current plans, the funding contribution by producers in fiscal year 1987 includes an amount intended for treatment activities in the event spot infestations or reinfestations occur in the eradication zone.

Mr. WHITTEN. For the record, has the assumption of these responsibilities been discussed with the States, and how much will it cost the States to assume the responsibility for surveillance and quarantine?

[The information follows:]

The assumption of these responsibilities has been discussed with the States and the Southeast Boll Weevil Foundation, Inc. We estimate that costs to producers in the Southeast program for surveillance, quarantine, and spot treatments if necessary, will total $1,372,000 in fiscal year 1987.

Mr. WHITTEN. You are also proposing to decrease the Federal share of the control program in the Texas High Plains to 30 percent of program costs as opposed to 50 percent now borne by the

Federal Government, your justification being that industry is capable of paying 70 percent of program costs. For the record, has this proposal been discussed with the producers?

[The information follows:]

Yes, it has.

Mr. Whitten. Please provide for the record a dollar estimate of the costs now borne by the producer, and how much the producers' cost per acre will increase.

[The information follows:]

In 1984, the most recent calendar year for which final figures are available, the producers' share of field operations costs totaled approximately $222,500, or $4.48 per acre per application. It should be kept in mind that costs in a program of this nature are subject to fluctuation from one year to the next due to the influence of weather conditions upon population levels. Over the past 10 years, the producers' share of costs has averaged about $500,000 per year, or $1.01 per acre per application. Under the proposed change from a 50:50 to 30:70 Federal to non-Federal cost sharing ratio, the producers' share of costs per acre treated will increase by 40 cents on the dollar.

GOLDEN NEMATODE

Mr. Whitten. You are also proposing to terminate participation in cooperative research at Cornell University to combat golden nematode. Your justification for this is that the State is assuming a greater role in this research. Is the State willing to assume full responsibility for this research effort?

Mr. Hawkins. The State has not indicated a willingness to assume full responsibility for the cooperative research program. However, we believe the proposed transfer of responsibility is appropriate, given the fact that New York is the direct beneficiary in this case.

GRASSHOPPER

Mr. Whitten. Please provide for the record a list of States and acreage treated by Federal and State or private rangeland and costs as a result of the emergency declared last June.

[The information follows:]

1985 EMERGENCY GRASSHOPPER CONTROL PROGRAM

State	Acres Treated		Federal Cost
	Federal	State/Private	
Arizona	65,163		$144,682
Colorado	198,965	54,596	511,101
Idaho	5,530,181	902,409	11,391,784
Montana	1,209,321	252,623	2,230,513
Nebraska	27,650		57,961
North Dakota	368,804	281,754	842,217
Oklahoma		86,947	54,595
Oregon	364,988	129,962	757,853
South Dakota	11,889	77,709	74,407
Texas		45,872	29,339
Utah	1,073,355	266,218	3,072,180
Washington	240	16,064	12,939
Wyoming	322,279	2,631,737	2,275,206

1985 EMERGENCY GRASSHOPPER CONTROL PROGRAM—Continued

State	Acres treated		Federal cost
	Federal	State/Private	
Total	9,172,835	4,745,891	21,454,777

GYPSY MOTH

Mr. WHITTEN. Please provide for the record a table showing the number of acres defoliated by the gypsy moth in recent years.

[The information follows:]

GYPSY MOTH DEFOLIATION (ACRES)

State	1979	1980	1981	1982	1983	1984	1985
Connecticut	7,486	272,213	1,482,216	803,802	153,219	544	89,544
Delaware	10		500	1,265	2,992	14,203	5,144
Maine	23,180	221,220	655,841	574,537	16,285	1,892	6,698
Maryland		3	8,826	9,162	15,870	41,824	83,488
Massachusetts	226,260	907,075	2,826,095	1,383,265	148,133	185,520	414,084
Michigan	100	5	18	92	457	6,425	18,460
New Hampshire	5,980	183,999	1,947,236	878,273	560		
New Jersey	193,700	411,975	798,790	675,985	340,285	98,695	239,350
New York	162,275	2,449,475	2,303,915	825,629	290,843	33,678	129,820
Pennsylvania	8,552	440,500	2,527,753	2,351,317	1,360,824	444,900	581,113
Rhode Island	655	43,830	272,556	658,000	53,800	164,600	133,920
Vermont	15,411	75,094	48,979	9,864			
Virginia						374	5,200
West Virginia							2,400
Total	643,609	5,005,389	12,872,725	8,171,191	2,383,268	992,655	1,709,221

Mr. WHITTEN. Is any progress being made on methods to control the spread of the gypsy moth? Please explain for the record in some detail.

Mr. HAWKINS. There is no technology currently available to control the natural spread of gypsy moth. Research continues to focus on the F_1 sterility technique which shows some promise. Recently, APHIS sponsored a preliminary feasibility meeting which provided an opportunity for discussion of the various mating disruption and trapping methods including F_1 sterility among representatives of USDA, State regulatory agencies, and universities. A product of the meeting was a preliminary plan involving a strategic approach to implementation of a containment program. The plan calls for a 3 to 5 year pilot project over a small area, perhaps three of four counties, in order that the feasibility over a wider area can be assessed. We are continuing to conduct an aggressive public information campaign with the moving industry to promote adherence to our outdoor household articles regulations, in order to limit artificial spread of the pest.

IMPORTED FIRE ANT

Mr. WHITTEN. You are proposing to terminate the imported fire ant program, your justification being that it should be the responsibility of the States not the Federal Government to provide control tools to individuals. Further, you state that States, communities, and local organizations will be encouraged to use available tools to combat the fire ant. Have you discussed this proposal with the affected organizations? Have they expressed interest in assuming the responsibility and the costs?

Mr. HAWKINS. No formal discussions have taken place, nor have we received any expressions of interest from organizations seeking to assume responsibility for the program. The States face the same problems we do, primarily the lack of an effective tool approved for use.

Mr. WHITTEN. Has APHIS effectively stopped the spread of the fire ant to other States?

Mr. HAWKINS. APHIS has been successful in stopping the artificial spread of imported fire ant to most noninfested areas, although within affected States the pest is still spreading by natural means.

Mr. WHITTEN. Is not controlling the spread of fire ants still a Federal responsibility?

Mr. HAWKINS. The problem remains that effective control tools are not available to stop the natural spread of imported fire ant. Control tools are available for localized problem areas within the infested States. However, because the imported fire ant already exists in a majority of its potential range, we feel that control activity is a State rather than Federal responsibility.

MEDITERRANEAN FRUIT FLY

Mr. WHITTEN. According to the explanatory notes, you declared eradication of the Mediterranean fruit fly on August 27, 1985. Will APHIS continue surveillance activities in suspect areas? If so, please explain for the record the scope of such surveillance activities and the estimated cost.

Mr. HAWKINS. Surveillance activities for FY 1986 are scheduled to occur in Florida, Louisiana, Texas, New Mexico, Arizona, Nevada, and California. We estimate the cost of those activities to be $521,000.

Mr. WHITTEN. Please submit for the record a copy of the report regarding eradication of the Mediterranean fruit fly from Central America and Panama being technically feasible.

[The report appears on pages 728 through 800.]

Mr. WHITTEN. What is APHIS currently doing with regard to the recommendations in this report?

Mr. HAWKINS. The Central America program is being operated under the auspices and leadership of the Food and Agriculture Organization—FAO. FAO will coordinate the development of the program and the request for assistance on financing from donor countries. FAO has made available $780,000 to initiate activities that will expedite the beginning of the program when sufficient funds become available.

Mr. WHITTEN. What would be the economic impact of another major Medfly outbreak in the U.S?

Mr. HAWKINS. The economic impact of a permanent Medfly infestation in California has been estimated at $350–$750 million annually. Based on this estimate, the economic impact of a permanent Medfly infestation in the United States is estimated at roughly $2 billion annually.

Mr. **Whitten**. How does this cost compare with the cost of moving the barrier?

Mr. **Hawkins**. We estimate that a successful eradication program to eradicate Medfly from Central America would require 8 years to complete at a cost of approximately $350 million dollars.

Mr. **Whitten**. If the barrier is moved, statistically how much is the chance of another outbreak reduced?

Mr. **Hawkins**. The threat of an outbreak in the United States could be significantly reduced by moving the sterile fly barrier to Panama. This would greatly reduce the threat of reinfestation to Mexico. If Medfly were to reestablish itself in Mexico, it would almost certainly reinfest the U.S. due to the natural movement of the pest.

Mr. **Whitten**. What other funds might be available to assist in moving the barrier?

Mr. **Hawkins**. FAO is hosting a conference of potential donor countries in mid-1986. With the technical leadership of the United States and its monetary contributions, other countries may indicate their intent to monetarily participate in the program. Outside of direct appropriations, funding may be forthcoming from the Agency for International Development.

MEXICAN FRUIT FLY

Mr. **Whitten**. Please provide for the record updated efforts to control the Mexican fruit fly, including the new facility at Mission, Texas.

Mr. **Hawkins**. APHIS continues to conduct survey, regulatory, and control activities to prevent spread of the Mexican fruit fly from Mexico to citrus-growing areas in the United States. Delimiting surveys and static releases of sterile flies have been initiated around two new detection sites in the Rio Grande Valley of Texas. This brings the total number of feral or wild flies caught since December 1985 to four.

The temporary sterile fly facility at Mission, Texas continues in operation. A permanent facility, currently under construction, is now scheduled for completion in May 1986. The temporary facility is capable of producing 10 million steriles per week. Production during FY 1986 has ranged from 5 to 8 million flies per week.

During the past shipping season, the Mexican fruit fly program was able to certify 4,800 tons of citrus fruit originating from the lower Rio Grande Valley. The fruit was certified without requiring fumigation due to the success of the sterile release program.

NOXIOUS WEEDS AND WITCHWEED

Mr. **Whitten**. You also propose termination of the Federal role in the noxious weeds and witchweed programs, turning this responsibility over to the States. Has this been discussed with the affected States?

Mr. **Hawkins**: We have provided information about these proposals to the States.

Mr. WHITTEN. Please provide for the record a table showing the number of acres released from quarantine since the beginning of the program and how many remain in quarantine at the present time.

[The information follows:]

WITCHWEED PROGRAM

Acres Released from Quarantine through Eradication:

Category	*Number of acres*
Released from quarantine, 1957–1985	281,051
Currently under quarantine	144,325
Total	425,376

AFRICANIZED HONEY BEE

Mr. WHITTEN. Please provide for the record a status report on the Africanized honey bee in California, describing any plans for control.

Mr. HAWKINS. In mid-June 1985, a sample of aggressive bees was collected in Kern County, California. They were identified as Africanized at the University of California at Davis on July 23 and confirmed by the Agricultural Research Service on July 23 and 24 APHIS, State, and county personnel immediately initiated a survey and regulatory program to detect, destroy, and prevent the movement of any bees with African parentage. The California Department of Food and Agriculture established a technical committee to review and advise on the program. Subsequently, over 22,000 samples of bees were collected and processed. Six managed and five feral or wild colonies were destroyed. Genetic dilution of any remaining African traits is expected to continue to solve the problem. State regulations have been rescinded and a Federal proposal to rescind the quarantine and regulations is underway. Some sampling will be done in remote areas of the county in the spring of 1986 to make sure there are no feral nests of highly Africanized bees.

Mr. WHITTEN. Have you yet developed an estimate of cost for controlling the Africanized honey bee?

Mr. HAWKINS. Unfortunately, technology to control or eliminate large-scale infestations does not now exist, in contrast to our ability to eliminate small isolated introductions such as occurred in California last summer. We are cooperating with the governments of Mexico and Central American countries to monitor the natural movement of Africanized bees and are encouraging research by the Agricultural Research Service and universities to develop an effective genetic response to the problem. The amount of funding required to achieve eradication or control of an infestation of such magnitude would be substantial. Our costs in controlling the California Africanized bee introduction total approximately $250,000 to date.

CITRUS CANKER

Mr. WHITTEN. Please provide for the record a status report on efforts to control citrus canker.

[The information follows:]

Aphis Efforts To Control Citrus Canker

Citrus canker is a devastating bacterial disease which attacks many varieties of citrus plants. The disease, endemic to many parts of Africa, Asia, and Latin America, has no known cure. Its spread must be stopped through the destruction of all infected or exposed plants and trees.

On August 27, 1984, citrus canker was detected in Flordia for the first time since 1927 at a nursery in Polk County. Since that date, seventeen additional nurseries have been confirmed positive for canker, the most recent of which occurred on December 31, 1985. There have been no detections to date in groves.

Since September 1984, USDA has assisted Florida in a cooperative eradication program consisting of surveillance to determine the extent and threat of infection; enforcement of quarantines to prevent spread of the disease through the movement of citrus; identification and destruction of infected or exposed stock; defoliation of trees or plants adjacent to those destroyed; and tracing of shipments from infested locations. Since the program started, more than 2.5 million survey inspections have taken place, approximately 15,000 plant specimens have been tested for canker, and over 70,000 regulatory visits have been made.

To date, in excess of 22 million plants have been destroyed or identified for destruction as a result of canker infection or exposure to the disease. The Department, under a Declaration of Extraordinary Emergency, has provided compensation to owners of destroyed plants on a 50 percent basis in accordance with values established by a panel of Federal and State experts. Commodity Credit Corporation (CCC) funds were used to fund FY 1985 citrus canker obligations, totaling approximately $12 million. Included in that figure were Federal compensation payments of $4.1 million for owners of plants destroyed between October 17, 1984 and the beginning of Fiscal Year 1986. The State has paid a similar amount for compensation since the beginning of the program.

No compensation has been paid to owners of plants destroyed since August 1985 by APHIS or Florida, due to a lack of funds. The estimated Federal share of compensation payments due owners of plants destroyed prior to January 29, 1986 is estimated at $8,450,000. Due to the inability of APHIS to secure long-term funding for the project and the resulting threat posed to ongoing agency programs, a decision was announced on February 10, 1986, that Federal participation would be terminated effective March 31, 1986. A solution to the problem of securing funds to compensate owners of previously destroyed plants was announced by Secretary Lyng on March 17, 1986, with the transfer of $11.1 million from the Agricultural Research Service to APHIS. This does not alter the decision by USDA to withdraw from the program.

Mr. Whitten. Please provide an estimate of the cost incurred to date, including indemnity payments, and an estimate of economic loss to date.

Mr. Hawkins. During fiscal years 1984 and 1985, a combined $12.5 million was transferred from the Commodity Credit Corporation to APHIS to cover the Federal share of costs in the cooperative program. Of this amount, approximately $4,100,000 represents indemnities paid to owners of destroyed citrus plants.

In the current fiscal year through February 28, an additional $2 million in obligations have been incurred by APHIS for program operations. No indemnities have been paid by APHIS or the State for plants destroyed or ordered for destruction since August 1985. Federal indemnity costs for those plants are estimated at $8,450,000.

It was recently estimated that economic losses and program costs totalling roughly $90 million have been incurred to date as a result of the current infestation. Of this amount, $25,000,000 represents Federal commitments through March 31, 1986, $15,000,000 is the State of Florida's contribution, and $50,000,000 represents direct and indirect costs borne by the citrus industry. This includes uncompensated losses for destroyed nursery stock, costs associated with regulatory compliance, and revenues foregone due to the quarantine on shipments to other citrus-producing States.

ANIMAL HEALTH COMPLIANCE AND ENFORCEMENT

Mr. WHITTEN. According to the explanatory notes, compliance officers submitted 1,300 investigations of alleged violations of interstate regulations for possible prosecution. This was an increase of 39 percent over fiscal year 1984. Please identify for the record the location of the alleged violations and, if possible, please explain for the record the reasons for such an increase.

Mr. HAWKINS. That figure was the best estimate available when the explanatory notes were prepared. The total number of investigations submitted including those for interstate shipment regulations, Animal Welfare Act, and Veterinary accreditation standards violations was 1,246. I am including a table for the record that indicates the number and type of investigation by State.

The number of investigations have increased for several reasons. First, I have made compliance and enforcement a priority and stressed its significance in controlling and eradicating livestock diseases. For example, as we make progress toward the eradication of brucellosis, it becomes critical that we guard against the reinfection of areas previously cleared of the disease by stringently enforcing the rules and regulations governing interstate movement of livestock.

Second, prior to 1984 individual field stations determined whether a case should be presented for prosecution. To attain greater uniformity and provide safeguards against possible fraud or abuse at the field level, field stations were instructed to submit all investigative reports to headquarters for review.

Finally the public has become increasingly aware of the provisions of the Animal Welfare Act and are reporting more alleged violations.

[The information follows:]

ANIMAL HEALTH COMPLIANCE AND ENFORCEMENT INVESTIGATED CASES SUBMITTED IN FISCAL YEAR 1985

	Interstate regulations	Veterinary accreditation	Animal welfare	Total
Alabama	28	10	1	39
Alaska	0	0	0	0
Arizona	2	0	6	8
Arkansas	29	16	4	49
California	11	3	17	31
Colorado	18	2	7	27
Connecticut	0	1	5	6
Delaware	0	1	0	1
Florida	9	12	39	60
Georgia	14	7	9	30
Hawaii	0	0	1	1
Idaho	4	9	0	13
Illinois	9	5	8	22
Indiana	9	9	5	23
Iowa	17	3	3	23

ANIMAL HEALTH COMPLIANCE AND ENFORCEMENT INVESTIGATED CASES SUBMITTED IN FISCAL YEAR 1985—Continued

	Interstate regulations	Veterinary accreditation	Animal welfare	Total
Kansas	5	4	11	20
Kentucky	3	6	0	9
Louisiana	24	7	5	36
Maine	0	6	8	14
Maryland	3	2	5	10
Massachusetts	11	1	21	33
Michigan	4	3	7	14
Minnesota	1	4	10	15
Mississippi	135	10	0	145
Missouri	19	9	24	52
Montana	2	0	2	4
Nebraska	18	5	1	24
Nevada	1	1	2	4
New Hampshire	0	3	1	4
New Jersey	0	1	4	5
New Mexico	9	6	0	15
New York	11	8	19	38
North Carolina	5	11	12	28
North Dakota	3	1	1	5
Ohio	4	4	4	12
Oklahoma	50	20	6	76
Oregon	3	4	10	17
Pennsylvania	14	1	32	47
Rhode Island	0	0	2	2
South Carolina	4	3	0	7
South Dakota	1	4	0	5
Tennessee	30	12	4	46
Texas	83	52	6	141
Utah	5	2	2	9
Vermont	0	0	0	0
Virginia	6	2	5	13
Washington	3	4	3	10
West Virginia	3	2	0	5
Wisconsin	12	13	12	37
Wyoming	5	3	0	8
Puerto Rico	3	0	0	3
Total	630	292	324	1,246

BRUCELLOSIS ERADICATION

Mr. WHITTEN. You are proposing a reduction of the brucellosis eradication program by about 10 percent and focusing the Federal involvement on those States with the highest level of infection. Please provide for the record a list of the States in each brucellosis classification.

[The information follows:]

Free Status: Alaska, Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, New Hampshire, New York, North Carolina, North Dakota, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, Virgin Islands, Wisconsin, Wyoming, and District of Columbia.

A Status: Arizona, California, Colorado, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Nebraska, Nevada, New Jersey, New Mexico, Ohio, Oregon, Puerto Rico, South Dakota, Tennessee, Virginia, Washington State, and West Virginia.

B Status: Alabama, Kentucky, Mississippi, Missouri, and Oklahoma.

B. & C Status: Florida and Texas.

C Status: Arkansas and Louisiana.

Mr. WHITTEN. Please describe in detail the progress made in the program in fiscal year 1985.

Mr. HAWKINS. In FY 1985, we made continued progress in reducing the incidence of disease. This is reflected by a reduction in the Market Cattle Identification reactor rate from 0.29 percent in FY 1984 to 0.26 percent in 1985. In addition, the number of infected herds decreased from 8,467 for FY 1984 to 6,982 in FY 1985, a reduction of 18 percent. The decrease in these two statistics is primarily due to the improvement of the brucellosis situation in high incidence States. In addition, the number of calves vaccinated increased from 8.8 million in FY 1984 to 9.3 million in FY 1985. Finally, the Market Swine Testing program reactor rate decreased from .036 percent in FY 1984 to .029 percent in FY 1985.

For FY 1985, Congress directed APHIS to meet the following State Classification goals: at least 22 Free States, not more than 21 Class A States, not more than 6 Class B States, and no more than 4 Class C States. We met the Congressional goals for Class B and C States, and exceeded the goals for Class Free and A States. At the end of FY 1985 there were 23 Class Free States—including the District of Columbia and U.S. Virgin Islands—20 Class A States, 6 Class B States, and 4 Class C States; early in FY 1986 Nevada attaind Class A status.

Mr. WHITTEN. Please also provide for the record a table showing brucellosis expenditures by State for fiscal year 1985 and estimates for fiscal year 1986 and 1987.

[The information follows:]

Location	Fiscal year		
	1985 actual	Estimate	
		1986	1987
Alabama	2,728,742	2,217,000	2,093,000
Alaska	13,078	16,000	15,000
Arizona	385,517	372,000	351,000
Arkansas	4,496,301	3,369,000	3,180,000
California	2,121,823	2,019,000	1,906,000
Colorado	3,645,389	4,702,000	4,439,000
Connecticut	36,012	43,000	41,000
Delaware	17,680	13,000	13,000
Florida	7,916,191	9,331,000	8,809,000
Georgia	1,881,144	1,754,000	1,656,000
Hawaii	17,448	59,000	56,000
Idaho	809,614	806,000	761,000
Illinois	655,209	537,000	508,000
Indiana	405,254	390,000	368,000
Iowa	1,635,333	1,498,000	1,414,000
Kansas	1,051,926	1,007,000	950,000
Kentucky	2,864,032	2,182,000	2,060,000
Louisiana	2,309,983	2,557,000	2,414,000

Location	Fiscal year		
	1985 actual	Estimate	
		1986	1987
Maine	122,311	133,000	126,000
Maryland	3,463,327	2,717,000	2,565,000
Massachusetts	163,155	188,000	178,000
Michigan	281,473	319,000	301,000
Minnesota	565,220	651,000	615,000
Mississippi	3,548,340	2,958,000	2,793,000
Missouri	2,187,832	1,946,000	1,837,000
Montana	130,040	200,000	189,000
Nebraska	1,096,013	1,003,000	947,000
Nevada	647,105	528,000	498,000
New Hampshire	36,974	37,000	35,000
New Jersey	117,350	96,000	90,000
New Mexico	650,375	577,000	545,000
New York	575,641	1,266,000	1,195,000
North Carolina	299,149	260,000	245,000
North Dakota	243,877	148,000	140,000
Ohio	310,849	228,000	215,000
Oklahoma	4,043,892	3,828,000	3,614,000
Oregon	185,393	226,000	213,000
Pennsylvania	320,866	301,000	284,000
Rhode Island	24,981	14,000	13,000
South Carolina	465,567	462,000	436,000
South Dakota	740,411	776,000	732,000
Tennessee	2,467,814	2,277,000	2,150,000
Texas	9,615,515	9,549,000	9,015,000
Utah	304,382	271,000	256,000
Vermont	91,832	59,000	55,000
Virginia	379,367	300,000	283,000
Washington	325,796	402,000	379,000
West Virginia	363,853	353,000	333,000
Wisconsin	520,625	634,000	599,000
Wyoming	194,948	254,000	240,000
Washington, DC	492,499	479,000	452,000
Puerto Rico	683,983	421,000	398,000
Total	68,651,431	66,733,000	63,000,000

[1] The fiscal year 1987 projected estimated allocations by State will be reevaluated when final requests are received from all States. The allocations will then be adjusted according to program needs and priorities.

CATTLE FEVER TICKS

Mr. WHITTEN. According to the explanatory notes, Mexico has curtailed its eradication and control programs due to insufficient funds. Has APHIS increased its activities to compensate for Mexico's actions? If so, at what cost?

Mr. HAWKINS. APHIS has increased its border surveillance—especially its aerial surveillance—and increased the concentration of pesticides used in the import dipping vats. The Agency also initiated studies on genetic pesticide resistance in ticks, after several resistant ticks were found in Mexico. These expanded activities in FY 1985 resulted in a $700,000 increase in spending over the FY 1984 level.

Mr. WHITTEN. Does the fiscal year 1987 budget request propose increasing this program?

Mr. HAWKINS. An increase was not requested for Fiscal Year 1987.

PSEUDORABIES PROGRAM

Mr. **Whitten**. The fiscal year 1987 budget proposes to terminate the pseudorabies program. Were any infected herds discovered in fiscal year 1985 and thus far in fiscal year 1986?

Mr. **Hawkins**. Yes, pseudorabies infection was discovered in additional herds during the current fiscal year and last fiscal year. Fiscal year data are not available; however, reports indicate that pseudorabies was diagnosed in 1,047 herds in 16 States during calendar year 1985.

SCREWWORM

Mr. **Whitten**. According to the explanatory notes, APHIS has accomplished the goal of eradicating the screwworm to longitude 93° in Mexico, and establishing a barrier at that longitude. How much of the fiscal year 1987 request for the screwworm program is for on-site expenses in Mexico?

Mr. **Hawkins**. Except for $395,000 to maintain the standby Mission, Texas plant, the rest of the budget request is for operating expenses in Mexico and headquarters direction required to run the program.

Mr. **Whitten**. Also according to the explanatory notes, APHIS still has some concern that the integrity of the barrier zone could be threatened and the agency is in the process of amending the agreement with Mexico to eradicate the screwworm in the rest of Mexico. Yet, you are requesting less funding for the program. Please explain for the record how you propose to expand the program and reduce funding by 25 percent.

Mr. **Hawkins**. Although the Fiscal Year 1987 request represents almost a 24 percent reduction from the Fiscal Year 1985 appropriation, it is slightly more than we actually obligated. Because of the strength of the U.S. dollar we did not have to obligate the full appropriation. Actually, we do not plan to produce more flies or increase expenses in order to expand the program on a limited basis. Funding for weekly sterile fly production is included in the Fiscal Year 1987 request. This includes a small percentage of flies for use in screwworm outbreaks north and west of the sterile fly barrier should they occur. During those times when there are no screwworm outbreaks in the eradicated areas, these sterile flies could be dispersed in areas east of the current barrier zone. With the funding requested we would not be able to embark on a full scale eradication program.

AVIAN INFLUENZA

Mr. **Whitten**. Was there any occurrence of avian influenza in fiscal year 1985 or thus far in fiscal year 1986? If so, please provide for the record a description of the occurrences, including actions taken by the agency.

Mr. **Hawkins**. One small outbreak of H5N2 avian influenza occurred in fiscal year 1985. The infection was quickly eliminated with four premises depopulated by the State of Maryland. Our role was to monitor the outbreak, conduct epidemiology, distribute information about the outbreak, and provide technical, laboratory, and diagnostic assistance. APHIS personnel investigated 250 premises in five States for potential infection.

In fiscal year 1986, another outbreak of H5N2 avian influenza occurred on January 8, 1986, involving the live-bird marketing industry. At the present time, this outbreak has involved the States of Pennsylvania, Massachusetts, New Jersey, New York, and Connecticut. Each State has conducted its own eradication procedures with technical help from the Federal Government. APHIS has supplied epidemiologists, diagnosticians, expertise in cleaning and disinfection, and laboratory assistance. The Agency has conducted a study of the live-bird industry in the Northeastern Region to identify how the disease spreads and all sources of infection. In addition, APHIS has compiled information on the outbreak for distribution to the poultry industry.

Mr. WHITTEN. For the record, will APHIS still be conducting surveillance programs? If so, please explain for the record the scope of the programs and the estimated cost.

Mr. HAWKINS. APHIS is assisting the Northeastern States in surveillance activities of poultry related to live-bird marketing. That assistance will continue to ensure all sources of infection have been detected and eliminated. Emphasis is now on the many contaminated retail and wholesale live-bird markets in the New York City and Newark, New Jersey, areas to see that this potential source of spreading avian influenza to poultry is removed.

APHIS will expand its study of the live-bird marketing to Southeastern States and then to the Central and Western States. The individual States will continue with their regular surveillance programs and APHIS will provide laboratory diagnostic support where needed.

[CLERK'S NOTE.—The material provided does not completely respond to the question.]

ANIMAL DAMAGE CONTROL

Mr. WHITTEN. For the record, the FY 1987 budget proposes to reduce the animal damage control program by 50 percent, stating the States, private organizations and individuals have developed the expertise to control predators. Is it your opinion that this is what the Congress had in mind when it transferred the program to APHIS?

Mr. HAWKINS. In 1931, Congress established Animal Damage Control—ADC—to prevent agricultural losses due to vertebrate depredation. We will carry out the mandate of Congress and devote the majority of program funds to this activity. We do feel, however, that cooperators could bear a greater share of program costs. For approximately 55 years, the ADC program has been carried out cooperatively with other Federal agencies, States, private organizations, and individuals. Over the years, these groups have developed a significant level of expertise in controlling predatory losses.

[CLERK'S NOTE.—The material provided does not respond to the question.]

Mr. WHITTEN. What steps have been taken to implement the program?

Mr. HAWKINS. Since December 19, 1985, two transition teams, one representing the Fish and Wildlife Service and one representing APHIS, have worked to complete the ADC transfer by April 1, 1986.

We have established the program as a separate unit within APHIS, with ADC holding the same status as Veterinary Services and Plant Protection and Quarantine. Mr. James O. Lee, Jr., has been appointed Deputy Administrator in charge of ADC. We have established a national technical support staff in Hyattsville, Maryland, and a Western and Eastern region to administer field operations. APHIS will also operate the Denver Wildlife Research Center. All ADC employees were transferred to APHIS on or before March 16, 1986.

Mr. WHITTEN. How does APHIS propose to balance the environmental protection and agricultural production concerns?

Mr. HAWKINS. APHIS is sensitive to the need to balance agricultural production with environmental protection. To ensure that we maintain a proper balance, we are forming a Secretary's Advisory Committee with representatives from major groups outside of USDA which are concerned with ADC activities. The purpose of this committee is to provide the Secretary with advice on ADC policy. This will help to ensure that we balance agriculture and environmental concerns.

In addition, we will comply with related provisions of the Endangered Species Act, Bald and Golden Eagle Protection Act, National Environmental Protection Act, Migratory Bird Treaty Act, and regulations of the Environmental Protection Agency dealing with the use of pesticides. We will continue to conduct research on nonlethal control methods and will focus program efforts on crop and livestock protection.

FOOD SECURITY ACT OF 1985

Mr. WHITTEN. Did the Food Security Act authorize any new activities for the Animal and Plant Health Inspection Service? If so, please describe each authority for the record and estimate of the cost for implementing these programs in fiscal years 1986 and 1987.

Mr. HAWKINS. The Food Security Act of 1985 gave increased responsibilities to the Agency's grasshopper eradication, animal welfare, and veterinary biologics programs.

While the purpose of the Agency's grasshopper program has been the protection of rangelands, this Act establishes a new goal of protecting private cropland adjacent to Federally owned rangeland from grasshoppers migrating from these Federal lands. No estimate of the potential cost is available at this time mainly due to the fact that APHIS has never attempted such a program at least in recent years. Also, grasshopper infestation levels are heavily dependent upon spring weather conditions which adds to the uncertainty.

The Food Security Act also amended the Animal Welfare Act by directing APHIS to set up standards, regulations, and inspections which apply to research animals; to establish Institutional Animal Care Committees; to establish and review certain responsibilities for the veterinarian attending painful experimental procedures to minimize animal pain and distress; to more closely monitor reports from research facilities; to establish and monitor exercise requirements for dogs and the psychological well-being of non-human primates; and to cooperate with the National Agricultural Library in the establishment and operation of an information system. Estimated additional FY 1987 inspection costs would be $67,500 and additional training costs, $100,000. The total animal welfare program has been proposed for elimination in the FY 1987 budget.

The Act also gives authority to APHIS to regulate intrastate biologics producers when formerly this agency had only regulatory authority over interstate establishments. APHIS is presently communicating with each intrastate firm informing them of this new authority and drafting regulations for controlling the intrastate biologics industry. We expect to have new regulations published in the Federal Register within one year. Intrastate establishments need not license their presently marketed biologics with USDA until January 1990. Therefore, there will be only minimal additional costs in FY 1986 or 1987. The agency is uncertain about future funding levels, but will have a better estimate of costs by January 1, 1987, when all intrastate firms must file an application for license if they want an exemption until 1990.

FISCAL YEAR 1987 BUDGET

Mr. WHITTEN. Please provide for the record a table summarizing the fiscal year 1987 increases and decreases by program.

[The information follows:]

Fiscal year 1987 decreases

Program:	
Plant disease and pest control:	
Agricultural quarantine inspection	−$188,000
International programs	−7,000
Pest detection	−13,000
Plant protection programs:	
Biocontrol	−11,000
Boll weevil	−2,385,000
Golden nematode	−103,000
Grasshopper & Mormon cricket	−16,935,000
Gypsy moth	−17,000
Imported fire ant	−5,774,000
Mediterranean fruit fly	−29,000
Mexican fruit fly	−5,000
Miscellaneous plant pests	−4,000
Noxious weeds	−784,000
Pink bollworm	−1,342,000
Witchweed	−4,695,000
Total plant disease and pest control	−$32,292,000
Animal disease and pest control:	
Animal disease detection	−10,000
Animal health compliance and enforcement	−47,000
Import-export inspection	−29,000
International programs	−7,000
Veterinary biologics	−29,000
Veterinary diagnostics	−37,000
Animal health programs:	
Brucellosis	−6,731,000
Cattle ticks	−21,000
Foot-and-mouth disease (Darien Gap)	−8,000

Miscellaneous animal diseases	−7,000
National poultry improvement plan	−1,000
Poultry diseases	−2,000
Pseudorabies	−2,308,000
Screwworm	−4,612,000
Swine health protection	−11,000
Tuberculosis eradication	−13,000
Animal welfare	−4,836,000
Horse protection	−158,000
Total animal disease and pest control	−$18,867,000
Animal damage control	−$9,880,000
Total, salaries and expenses	−$61,039,000

Mr. WHITTEN. Please also provide for the record a table showing the geographic impact of each current program and an estimate of the economic loss of the disease or pest.

[The information follows:]

Plant disease and Pest Control

Program	Geographic Impact	Current Losses/Comments
Agricultural Quarantine Inspection	Nationwide (U.S. ports-of-entry)	AQI prevents harm to the multimillion dollar U.S. agricultural industry, and promotes U.S. agricultural exports valued at $31.2 billion (1984).
Biocontrol	Nationwide	Alfalfa weevil is established throughout the United States with annual losses estimated to be $250 million. Silverleaf nightshade infests approximately 3 million acres in Texas with losses estimated to be $20 million annually. Diffuse and spotted knapweed destroys beneficial native grazing forage with losses in Montana alone estimated to be $4.5 million.
Boll weevil	Southern and Western States	Losses due to boll weevil throughout its range are estimated at $500 million annually.
Golden Nematode	New York	Negligible.
Grasshopper	Midwestern and Western States	Highly variable; depends upon size of infestation and nature of cropland infested.
Gypsy Moth	Northeast, South, other isolated areas in the United States	Losses in commercial timber in the generally infested Northeast have ranged from $6 million to $486 million in recent years.
Imported fire ant	Southeastern States	$48 million.

International Programs	Worldwide	Works to prevent the introduction of plant and animal pests and diseases into the U.S. through liaison and exchange of information with foreign officials. Facilitates the entry of U.S. agricultural products into international markets.
Mediterranean fruit fly	Central America	Potential losses to a variety of fruit and vegetable crops from reinfestation in the United States have been estimated at $2 billion annually.
Mexican fruit fly	Rio Grande Valley of Texas and Northwest Mexico	Mexfly affects a wide range of hosts, including mangoes, peaches, pears, apples, and grapefruit. It is a potential threat to the U.S. citrus industry valued at $2 billion annually.
Miscellaneous Pests--Japanese Beetle	Eastern States	Potential losses to western States are estimated at over $60 million annually.
Noxious Weeds	Nationwide	$13 billion based upon current APHIS staff estimates.
Pest Detection	Nationwide	Works to detect new or exotic agricultural plant pests and pathogens. Survey important endemic plant pests and diseases that require action programs.
Pink Bollworm	Southwestern States	$69 million, based upon current APHIS staff estimates.
Witchweed	Carolinas	Currently negligible; potential loss of $980 million annually plus an estimated 10% loss in yield ($2.3 billion).

Animal Disease and Pest Control

Program	Geographic Impact	Current Losses/Comments
Animal disease detection	Nationwide	This program is not disease or pest specific; instead, it provides protection against all animal diseases and pests. Potential losses that would be caused by the entry of foreign animal diseases or pests are estimated at $4.3 billion annually. Current losses caused by domestic diseases are estimated at $17-20 billion.
Animal health compliance and enforcement	Nationwide	This program is not disease pest specific; instead, it provides protection against all animal diseases and pests. Potential losses that would be caused by the entry of foreign animal diseases or pests are estimated at $4.3 billion annually. Current losses caused by domestic diseases are estimated at $17-20 billion.
Animal welfare	Nationwide	Quantitative estimates of losses due to the inhumane treatment of animals (e.g. pain or suffering) are unavailable. Losses in the absence of a Federal program would depend upon the ability of States and humane societies to assume responsibility for the program.
Brucellosis	Nationwide concentration in Southeast States	$25.6 million.
Cattle ticks	Texas, Puerto Rico	$275.7 million
Foot-and-mouth disease	Colombia, Panama	No current losses in U.S.; estimated losses if FMD enter the U.S. for a 15-year period are estimated to be $12 billion.

Horse protection	Nationwide	Quantitative estimates of losses due to the inhumane treatment of horses are unavailable. Losses in the absence of a Federal program would depend upon the ability of States and humane societies to assume responsibility for the program.
Import-export inspection	Nationwide	This program is not disease or pest specific; instead, it provides protection against all animal diseases and pests. Potential losses that would be caused by the entry of foreign animal diseases or pests are estimated at $4.3 billion annually. Current losses caused by domestic diseases are estimated at $17-20 billion.
International Programs	International	This program is not disease or pest specific; instead, it provides protection against all animal diseases and pests. Potential losses that would be caused by the entry of foreign animal diseases or pests are estimated at $4.3 billion annually.
Miscellaneous animal diseases	Nationwide	$2.5 million due to Scrapie, $15.3 million due to scabies.
National poultry improvement plan	Nationwide	$150 million due to Mycoplasmosis, $1.2 billion due to salmonellosis.
Poultry diseases	Northern and Central States	$150 million due to Mycoplasmosis, $1.2 billion due to Salmonellosis.
Pseudorabies	Northern States primarily, some in Southeast and Central States	$20 million.

Screwworm	Southern Mexico and Central America	The screwworm has been eradicated from the United States and northern Mexico. Potential losses from reinfestation in the United States have been estimated at $400 million annually.
Swine health	Nationwide	This program, which requires the cooking of all garbage, is designed to prevent the entry of foreign diseases into the United States. Potential losses that would be caused by their entry are estimated at $4.3 billion annually.
Tuberculosis	Nationwide	Unavailable.
Veterinary biologics	Nationwide	This program is not disease or pest specific; instead, it provides protection against all animal diseases and pests. Current losses caused by domestic diseases are estimated at $17-20 billion.
Veterinary diagnostics	Nationwide	This program is not disease or pest specific; instead, it provides protection against all animal diseases and pests. Potential losses that would be caused by the entry of foreign animal diseases or pests are estimated at $4.3 billion annually. Current losses caused by domestic diseases are estimated at $17-20 billion.

CONSTRUCTION PROJECTS

Mr. WHITTEN. Please provide for the record a status report on the agency's major construction projects.

[The information follows:]

HAWAIIAN STERILE FLY FACILITY

The architect-engineer contract was modified and the contractor has completed 75 percent of design and specifications. We are on schedule for a construction award in early October 1986. Completion is estimated for April 1988.

MEXICAN FRUIT FLY REARING FACILITY

The facility is nearly 98 percent complete. We expect to conduct a final inspection by mid-April 1986, and take occupancy later.

Mr. WHITTEN. Please also provide for the record a prioritized list of the construction proposed in the fiscal year 1987 budget and those projects that will extend beyond fiscal year 1987.

Mr. HAWKINS. I will be happy to furnish a prioritized list for Fiscal Year 1986. However, those projects identified for Fiscal Year 1987 and beyond have not been placed in priority order and are considered tentative until a final cost analysis is conducted.

[The information follows:]

ANIMAL AND PLANT HEALTH INSPECTION SERVICE—FISCAL YEAR 1986 PLANNED CONSTRUCTION PROJECTS

PRIORITY AND DESCRIPTION

1. Virology laboratory, Beltsville, Maryland
2. Gas heat conversion, New York Animal Import Center (NYAIC), Newburgh, New York
3. Parasitology building, National Veterinary Services Laboratories (NVSL), Ames, Iowa
4. Fumigant storage room, Beltsville Agriculture Research Center (BARC), Beltsville, Maryland
5. Quarantine line stations and inspection and treatment station, Puerto Rico
6. Poultry building addition, NVSL, Ames, Iowa
7. Subdivision of stalls in buildings 8 & 10, NYAIC, Newburgh, New York
8. Miscellaneous maintenance and repair to buildings and grounds, Mission, Texas (redesign overhead electrical distribution system, repair and upgrade natural gas distribution system, demolish and remove foundations for three buildings)
9. Miscellaneous maintenance and repair to buildings and grounds, Gulfport, Mississippi (Install security system, reroof buildings 2 & 9, paint 8 buildings)
10. Miscellaneous maintenance and repair to buildings and grounds, NVSL, Ames, Iowa (Install standby generator, install halon fire extinguishing system in chemical storage building, repair streets and drainage canals, check wall condition of chillers, install auto blowdown to 3 steam boilers, and general preventive maintenance)
11. Miscellaneous maintenance and repair to buildings and grounds, NYAIC, Newburgh, New York (Install snow guards, install smoke detectors in animal buildings)
12. Construct special equipment, storage facility, Mission, Texas
13. Repair residence to house government employee, Presidio, Texas
14. Repair Plant Inspection Station, New Orleans, Louisiana
15. Refurbish fumigation chamber and incinerator, Miami, Florida
16. Reline firebox refractory and fire-dipping brick, San Ysidro, California
17. Miscellaneous maintenance and repair to buildings and grounds, BARC, Beltsville, Maryland (Install irrigation system, remodel building 320, establish maintenance controls)
18. Construct hay barn, NVSL, Ames, Iowa
19. Remodel office at airport, San Francisco, California
20. Study of waste treatment from NVSL, Ames, Iowa
21. Repair to structure, Miami, Florida

22. Install security system in animal buildings, NYAIC, Newburgh, New York
23. Extend road and sewer, NVSL, Ames, Iowa
24. Repair aircraft hanger roof, Mission, Texas

ANIMAL AND PLANT HEALTH INSPECTION SERVICE—FISCAL YEAR 1987 AND BEYOND—PLANNED CONSTRUCTION PROJECTS

DESCRIPTION

Two animal buildings, NVSL, Ames, Iowa
Germplasm plant quarantine facility, BARC, Beltsville, Maryland
Sewage treatment facility, NVSL, Ames, Iowa
Connect quarantine facility buildings to city water supply, BARC, Beltsville, Maryland
Border station, Detroit, Michigan
Quarantine line treatment stations, Puerto Rico
Confiscation stations, Puerto Rico
Greenhouses 8 and 9, BARC, Beltsville, Maryland
Miscellaneous maintenance and repair to buildings and grounds, NVSL, Ames, Iowa
Miscellaneous maintenance and repair to buildings and grounds, Mission, Texas
Miscellaneous maintenance and repair to buildings and grounds, NYAIC, Newburgh, New York
Miscellaneous maintenance and repair to buildings and grounds, Gulfport, Mississippi
Miscellaneous maintenance and repair to buildings and grounds, BARC, Beltsville, Maryland
Extend gas and water, NVSL, Ames, IA
Air operations building, Mission, Texas
Office and laboratory buildings, Mission, Texas

OTHER SERVICES

Mr. WHITTEN. Please provide for the record a sub-object classification display for other services for fiscal years 1985, 1986, and 1987.

[The information follows:]

SUB-OBJECT DISPLAY OF OTHER SERVICES

	Fiscal year		
	1985 actual	Estimated	
		1986	1987
Contractual services performed by other government agencies	$12,053,621	$12,966,000	$10,438,000
Other services performed by other government agencies	804,507	834,000	545,000
Repairs, alterations and maintenance	3,207,122	3,528,000	2,840,000
Flying and spraying contracts	9,182,282	10,100,000	2,169,000
Market cattle inspection	1,045,861	1,085,000	980,000
Other contractual services	1,240,268	1,286,000	841,000
Fee-basis veterinarians and back tagging	3,373,156	3,498,000	3,159,000
Coop agreements and contracts	19,899,343	32,451,000	22,042,000
ADP service	2,329,070	2,415,000	1,579,000
Miscellaneous services	354,095	390,000	255,000
Fees	28,613	31,000	31,000
Total	53,517,938	68,584,000	44,879,000

AIRCRAFT

Mr. WHITTEN. Please update the table which appeared in last year's hearing on page 242 regarding aircraft.

[The information follows:]

ANIMAL AND PLANT HEALTH INSPECTION SERVICE, AIRCRAFT BY TYPE, MAKE, MODEL, AGE, AIRFRAME HOURS, ENGINE HOURS, PURCHASE PRICE, AND CURRENT PROGRAM APPLICATION

Type (civilian make) and Registration Number	Model	Age	Airframe hours	Engine hours		Purchase price	Current program application
				Left	Right		
Beechcraft N-6810S	B-58	10	2,261.8	956.6	956.6	$139,000	Plant Protection Program
Beechcraft N-25698	B-55	12	1,472.9	449.2	161.5	74,000	Do.
Beechcraft N-25696	B-55	12	2,272.9	737.9	737.9	74,000	Do.
Cessna, N-9486G	U-206	16	3,578.4	(1)	668.2	42,000	Do.
Cessna, N-72306	U-206	17	4,440.0	(1)	508.6	36,000	Do.
Cessna, N-2737X	180	21	6,033.5	(1)	838.4	21,000	Do.
Cessna, N-731EQ	A188B	9	2,022.9	(1)	815.8	41,000	Do.
Beechcraft, N-166ZA	C-45-H	32	6,440.1	1,295.5	1,256.6	(2)	Do.
Beechcraft, N-167ZA	C-45-H	32	6,705.9	627.0	288.7	(2)	To be declared excess.
Beechcraft, N-7743C	C-45-H	32	6,435.9	330.1	372.9	(2)	To be declared excess.
Beechcraft, N-165ZA	C-45-H	33	7,733.7	360.6	256.9	(2)	Plant Protection Programs
Cessna, N-2728Y	180-H	21	5,081.0	(1)	675.8	(2)	Cattle tick program.
Arctic Tern, N-734	S-2B	2	475.0	(1)	475.0	47,500	Animal Damage Control
Piper, N-742	PA-18	22	10,036.0	(1)	1,125.0	(2)	Do.
Piper, N-752	PA-18	21	11,072.0	(1)	1,670.0	(2)	Do.
Piper, N-726	PA-18	3	1,077.0	(1)	1,077.0	43,100	Do.
Piper, N-746	PA-18	22	9,568.0	(1)	521.0	(2)	Do.
Piper, N-744	PA-18	4	1,650.0	(1)	1,650.0	44,290	Do.
Piper, N-751	PA-18	8	3,096.0	(1)	1,175.0	29,369	Do.
Hughes Helicopter, N-796	269-C	7	825.0	(1)	355.0	(2)	Do.

(1) Single engine
(2) Excess acquisition

EMERGENCY BORROWING AUTHORITY

Mr. Whitten. Please provide a complete listing of the occasions in which the Secretary has exercised the emergency borrowing authority provided by Public Law 97-46 and by annual appropriation bill language.

[The information follows:]

EMERGENCY BORROWING AUTHORITY

Program	Calendar year of emergency declaration	Fiscal year of fund transfer
Exotic Newcastle Disease	1972	1972, 1973, 1975, 1977, 1978, 1980, 1981.
Venezuelan equine encephalomyelitis	1971	1972.
Hog cholera	1972	1973, 1974, 1976, 1977.
African swine fever	1981	1981, 1982, 1983.
Medfly	1981	1981, 1982, 1983.
Avian influenza	1983	1984.
Grasshopper	1984	1984, 1985.
Citrus canker	1984	1984, 1985.
Gypsy moth	1985	1985.

IMPACT OF BUDGET

Mr. Whitten. What are the total estimated losses to agriculture attributable to the depredation of insects and disease?

Mr. Hawkins. Our best estimate is that pests and diseases reduce potential U.S. crop and livestock production by one-third. Losses are roughly $70 billion per year.

Mr. Whitten. What is the total size of the agricultural industry which benefits from your regulation, and how is it divided among the various components?

Mr. Hawkins. Farmers and ranchers benefit directly from APHIS programs in the form of reduced costs. In 1984, these groups produced livestock valued at $73 billion and crops worth $69 billion. Approximately 2.7 million people were employed on farms. However, agricultural health protection extends far beyond the farm gate. The agricultural product processing, storage, marketing, and transportation industries add several hundreds of billions of dollars to the value of farm products and employ an additional 18.3 million people. Over the past 5 years, the United States has exported between $32 and $44 billion in agricultural products annually. APHIS programs to detect, intercept, control, and eradicate pests and diseases protect all of these components of the agricultural industry.

Mr. Whitten. What is the direct appropriated cost of the Animal and Plant Health Inspection Service to each individual American consumer?

Mr. Hawkins. The direct appropriated cost of APHIS programs to the individual consumer will be approximately $1.25 in FY 1986.

Mr. Whitten. For every dollar of individual income tax paid in this country, how much goes to pay the cost of protection through APHIS programs?

Mr. **Hawkins**. We estimate that less than one-tenth of one cent of every individual income tax dollar will be spent on APHIS programs in FY 1986.

CURRENT SERVICES

Mr. **Whitten**. Please provide for the record a table which will show your current services estimates by program for the dollars and manpower that will be required to maintain the 1986 levels of plant and animal disease and pest control activities and for agricultural quarantine inspection.

[The information follows:]

Animal and Plant Health Inspection Service
Fiscal Year 1987 Current Services Estimate
(Dollars in Thousands)

	Amount	Staff Years
Plant disease and pest control:		
Agricultural quarantine inspection	$53,410,000	1,462
International programs	2,080,000	30
Pest detection	3,868,000	64
Plant protection programs:		
Biocontrol	3,218,000	68
Boll weevil	2,973,000	33
Golden nematode	979,000	27
Grasshopper & Mormon cricket	17,516,000	38
Gypsy moth	5,034,000	121
Imported fire ant	5,653,000	22
Mediterranean fruit fly	8,362,000	123
Mexican fruit fly	1,486,000	73
Miscellaneous plant diseases and pests	1,111,000	14
Noxious weeds	767,000	5
Pink bollworm	2,328,000	34
Witchweed	4,596,000	74
Total, Plant disease and pest control	$113,381,000	2,188
Animal disease and pest control:		
Animal disease detection	$2,981,000	45
Animal health compliance and enforcement	13,613,000	343
Import-export	8,298,000	204
International programs	1,980,000	22
Veterinary biologics	8,457,000	150
Veterinary diagnostics	10,733,000	153
Animal health programs:		
Brucellosis eradication	68,268,000	798
Cattle ticks	6,069,000	121
Foot-and-Mouth disease (Darien Gap)	2,176,000	10
Miscellaneous animal diseases and pests	1,962,000	23
National poultry improvement plan	214,000	4
Poultry diseases	619,000	13
Pseudorabies	2,260,000	18
Screwworm	32,315,000	110
Swine health protection	3,168,000	69
Tuberculosis eradication	3,835,000	73
Animal welfare	4,734,000	152
Horse protection	155,000	8
Total Animal disease and pest control	$171,837,000	2,316
Animal damage control	$ 19,463,000	400
Contingency fund	2,919,000	--
Total, Salaries and Expenses	$307,600,000	4,904

VETERINARY DIAGNOSTICS—PLUM ISLAND CONSTRUCTION

Mr. **Whitten**. APHIS foreign animal disease diagnostic services and ARS research activities are housed in two separate facilities at Plum Island. The Committee has been advised that the APHIS facilities are in need of repairs and have high maintenance costs. Is it necessary that these diagnostic services be conducted in Plum Island, or could it be carried out elsewhere?

Mr. **Hawkins**. Plum Island is the only place in the U.S. where research and diagnostic services using foot-and-mouth disease virus can be pursued. Under Public Law 496, the Act of May 29, 1884, as amended on April 24, 1948, Congress authorized research on foot-and-mouth and other animal disease agents that are not endemic to this Nation and represent severe threats to the U.S. animal industry. The public law stipulates that the laboratory be on an island surrounded by deep, navigable waters, not connected to the mainland by bridge or tunnel. Since its inception, Plum Island has been the sole mandated location for conducting research on foot-and-mouth disease. Design and location of the facility are crucial since biological agents used in research must be kept securely within contained facilities.

Mr. **Whitten**. If the APHIS activities will continue to be performed on Plum Island, are there plans to deal with the current facility problems, and what would the proposed changes cost?

Mr. **Hawkins**. The Agricultural Research Service—ARS—is the owner and manager of the Plum Island facility and is responsible for its construction and maintenance. ARS has developed plans to renovate the annex and one-fourth of the laboratory space in the main building, which would be occupied by APHIS, at a cost of approximately $8,000,000.

Mr. **Whitten**. What program cost savings could be expected?

Mr. **Hawkins**. The total program cost savings expected from the co-location of APHIS and ARS in the main building is approximately $4,600,000. This savings is comprised of a support staff reduction of 30 positions at $824,000 per year, an energy cost reduction of $1,100,000 per year, and other savings for such items as building closures, $2,676,000.

Mr. **Whitten**. Mr. Traxler.

APHIS BUDGET REQUEST

Mr. **Traxler**. Thank you, Mr. Chairman.

If I understand the witness' responses correctly, the department made a request of OMB somewhere in the area of $349 million?

Mr. **Dewhurst**. Yes, sir.

Mr. **Traxler**. And the mark from OMB came back at $255, nearly a $100 million reduction?

Mr. **Dewhurst**. Yes, sir.

MEDFLY ERADICATION

Mr. **Traxler**. You remember that last year you submitted the report to the Congress on the possibility of eradicating the Medfly, the rascal that we have devoted so much effort to, and the rest of the world pays attention to as well. There was talk about the possibility of eradicating the Medfly from Central America. What are the prospects there? Is that a possibility?

Mr. HAWKINS. Yes, sir. This committee and the Congress asked us to conduct a feasibility study on the eradication of the Medfly all the way through Central America. We approached the study on two levels. One, whether it was technically, and economically feasible, and two, whether it was sociologically feasible. The report has been submitted to Congress. It concludes that eradication is technically and sociologically feasible.

It is sociologically feasible given the circumstances the way they are today and it is economically cost beneficial because it would prevent the reintroduction of the Medfly from Central America to the U.S. With adequate facilities APHIS would also have the skills to produce a sufficient number of sterile flies needed to carry out such a program.

Mr. TRAXLER. In the proposed '87 budget are there any funds that would initiate such a program?

Mr. HAWKINS. No, sir. We are awaiting some direction from Congress on this because we were reacting to its request in conducting the feasibility study. Our request is only for maintaining the barrier where it is now, in the approximate area of the Guatemalan border.

Mr. TRAXLER. For the record, would you tell me how those funds compare in the proposed '87 budget with what you have been doing say in '85 and '86?

Mr. HAWKINS. We are requesting approximately the same level of funding.

Mr. TRAXLER. In your judgment what would be the economic impact if we had a major Medfly outbreak? How would that affect our exports of fruit and vegetables?

Mr. HAWKINS. There have been studies made which indicate that annual losses could range from $350 million to $900 million if the Medfly became established.

Mr. TRAXLER. How would that compare with the cost of funding an effort to eradicate the Medfly from Central America, which seems to be the major point of infestation that we are concerned about, is that correct?

Mr. HAWKINS. It is a major concern. We also have a strong concern about Hawaii as well, and I will speak to that later, if you like.

Mr. TRAXLER. Please.

Mr. HAWKINS. The Central American feasibility study indicated that it would take approximately eight years and $350 million to eradicate Medfly.

Mr. TRAXLER. Would any of those costs be borne by any of the Central American governments?

Mr. HAWKINS. The Food and Agriculture Organization has provided approximately $750,000 to date. Part of its role is to identify donor countries that might be supportive of such an effort, as well as the U.S. and the affected countries. FAO studies suggest some kind of contributions that would be substantive, but we do not know a dollar figure.

Mr. TRAXLER. This is a difficult question, because it requires a crystal ball a lot clearer than most of us have. What do you foresee in the coming fiscal year in terms of perhaps an outbreak in the U.S.?

Mr. HAWKINS. It really would take a crystal ball to predict an outbreak. We are doing our best to prevent it at ports of entry through our monitoring and quarantine procedures, but I would not put a percentage factor on the chance of an outbreak.

Mr. TRAXLER. Has there been any discussion to your knowledge within the Administration of perhaps using some of the CBI initiative funds?

Mr. HAWKINS. Yes, sir, there has been.

Mr. TRAXLER. Towards the Medfly cleanup effort?

Mr. HAWKINS. Yes, sir, this has been explored and the agricultural attache with the Embassy in Guatemala has been very supportive in getting concurrence for the use of PL–480 monies to help these countries to some degree, particularly Guatemala.

CENTRAL AMERICAN FRUIT FLY

Mr. TRAXLER. What crops of economic importance to our producers does the Medfly attack?

Mr. HAWKINS. Medfly attacks more than 200 fruit and vegetable crops. Preferred hosts important to the United States include apple, citrus, peach, pear, avocado, sweet bell red pepper and tomato.

Mr. TRAXLER. What will be the cost to the U.S. in fiscal 1987 and the following years for this eradication program?

Mr. HAWKINS. The proposed budget for fiscal year 1987 does not contain funding for a program to eradicate Medfly from Central America. We estimate that such a program would require 8 years to complete at a total cost of approximately $350 million.

Mr. TRAXLER. What will be the cost to other governments?

Mr. HAWKINS. A cost-sharing formula for the program has not yet been developed. We are seeking to identify potential donors from among the various countries and organizations, both domestic and international, which may share our interest in achieving eradication. Toward that end, the Food and Agriculture Organization is scheduled to host a donor conference in mid-1986 to solicit and identify support for such a program.

Mr. TRAXLER. Given the comparison between costs from losses associated with the Medfly and the cost of the program, isn't the expenditure warranted?

Mr. HAWKINS. The potential costs from a permanent infestation in the State of California are estimated at $350–750 million annually. The cost of the Central American program is estimated to be approximately $350 million over an 8-year period. In this respect, the program appears warranted. However, this would represent a substantial Federal appropriation.

Mr. TRAXLER. What is the cost-benefit for maintaining the border at the Darien Gap in Panama compared to the Mexico-Guatemalan border?

Mr. HAWKINS. An analysis prepared in 1985 indicates a benefit-cost ratio of .61 for the project. This analysis does not consider the risk of introduction into the United States via the Caribbean, nor does it consider the risk of introduction into northern Mexico which, if it occurred, would result in reinfestation of the U.S. through the natural migration of the pest.

In addition, this analysis ignores the importance of the risk of reinfestation in Northern Mexico. The threat from Mexico is two-fold. First, the potential loss of winter fruits and vegetables would be great. Approximately 40 percent of the U.S. winter fruit and vegetable product consumption consists of Mexican produce. Loss of this food source would cause food shortages and sharp price increases in the United States. Second, the natural movement of the Mediterranean fruit fly would jeopardize nearly 81 percent of the citrus produced in the U.S. in the zone susceptible to Medfly infestation. With those factors considered, the benefits to U.S. agriculture of such a program would outweigh its costs.

Mr. TRAXLER. What kind of financial and political support from other nations can we expect to receive for this program?

Mr. HAWKINS. Potential donors from other nations and organizations have expressed some degree of support for the program. The Food and Agriculture Organization (FAO) has made available $780,000 to initiate activities, and will host a conference of potential donor countries and organizations in mid-1986. It is anticipated that with the technical leadership of the U.S. and its monetary support, other countries may indicate a desire to monetarily participate in the program.

BRUCELLOSIS ERADICATION

Mr. TRAXLER. I know that you want to cut back on brucellosis eradication funding once again, citing a reduced frequency of the disease and losses. You are to be complimented for your accomplishment. However, it always is the case that it is harder to eliminate the last ten percent of a problem than the first ten percent. From the standpoint of ending this disease once and for all, doesn't it make sense to continue our effort at current levels, rather than reduce our efforts and face bigger problems in the future?

Mr. HAWKINS. Despite a reduction in Federal funding for brucellosis, we still expect progress in the eradication effort. FY 1987 will be the second year of a five year phasedown in Federal participation in some areas of the brucellosis program. The objective of the program is, with increased State and industry involvement, to bring all States to Class A status or better by the beginning of FY 1991. At the end of the phasedown period, USDA will provide rapid identification of disease and strict enforcement of interstate movement restrictions. States and industry will be encouraged to participate to a greater extent in secondary surveillance, elimination of infected herds, and vaccination. Through this partnership, we should continue to reduce the incidence of this disease.

PESTICIDE CONTAMINATION

Mr. TRAXLER. We have been hearing more about the problems associated with contaminated milk in some of our southern states, most notably Arkansas, as a result of feed that was treated with too much pesticide. I know that ASCS bears the responsibility for the dairy indemnity program. But can you tell us what role APHIS has in cases such as this one?

Mr. HAWKINS. APHIS does not have any direct statutory responsibility in this case. The National Veterinary Services Laboratories Toxicology Section has been providing diagnostic and reference assistance to a number of States. The Toxicology Section has been assisting by characterizing the insecticide and its metabolites in both milk fat and feed and coordinating testing methodology among referring laboratories. Check test samples with insecticides and insecticide metabolites present in the milk fat and feed are being distributed to involved laboratories to assist them in their analytical work.

In accordance with the Memorandum of Understanding between APHIS and the Food Safety and Inspection Service, the Meat and Poultry Inspection Programs have requested APHIS to provide assistance in tracing animals having heptachlor positive tissue samples to their herds of origin.

ANIMAL WELFARE

Mr. TRAXLER. Again, for the record, since you want to claim that States and local governments as well as humane societies should bear more responsibility for the Animal Welfare Act, can you tell me if the Department is proposing any changes in this legislation to allow others to enforce its provisions?

Mr. HAWKINS. We have not proposed any legislative modifications to the Animal Welfare Act. However, if Congress supports the budget proposal to eliminate funds for the program, we will propose that either the Animal Welfare Act be repealed or that it be amended to give States the power of enforcement.

Mr. TRAXLER. Please provide again a table showing the number of violations of the Act and the closing actions by State for fiscal 1985.

[The information follows:]

State	Total closed	By prosecution	Cases closed [1] without prejudice	Warning issued	Information letters
U.S. total	202	7	16	142	37
Alabama	0	0	0	0	0
Alaska	0	0	0	0	0
Arizona	5	0	0	4	1
Arkansas	3	0	0	3	0
California	7	0	1	6	0
Colorado	4	0	0	4	0
Connecticut	2	0	0	2	0
Delaware	0	0	0	0	0
Florida	38	0	5	11	22
Georgia	6	0	0	3	3
Hawaii	0	0	0	0	0
Idaho	0	0	0	0	0
Illinois	8	0	0	5	3
Indiana	4	0	1	3	0
Iowa	2	0	1	1	0

State	Total closed	By prosecution	Cases closed [1] without prejudice	Warning issued	Information letters
Kansas	4	0	1	3	0
Kentucky	0	0	0	0	0
Louisiana	2	0	0	2	0
Maine	5	1	0	4	0
Maryland	4	0	0	4	0
Massachusetts	13	0	0	11	2
Michigan	6	0	1	5	0
Minnesota	2	0	0	2	0
Mississippi	0	0	0	0	0
Missouri	8	1	0	7	0
Montana	0	0	0	0	0
Nebraska	1	1	0	0	0
Nevada	1	0	1	0	0
New Hampshire	1	0	0	1	0
New Jersey	1	0	0	1	0
New Mexico	0	0	0	0	0
New York	12	0	1	11	0
North Carolina	7	1	0	5	1
North Dakota	1	0	0	1	0
Ohio	0	0	0	0	0
Oklahoma	5	2	0	3	0
Oregon	2	0	0	2	0
Pennsylvania	24	1	3	20	0
Rhode Island	1	0	0	1	0
South Carolina	0	0	0	0	0
South Dakota	0	0	0	0	0
Tennessee	3	0	0	3	0
Texas	4	0	0	1	3
Utah	1	0	0	1	0
Vermont	0	0	0	0	0
Virginia	5	0	1	3	1
Washington	2	0	0	2	0
West Virginia	0	0	0	0	0
Wisconsin	8	0	0	7	1
Wyoming	0	0	0	0	0
Puerto Rico	0	0	0	0	0
District of Columbia	0	0	0	0	0
Virgin Islands	0	0	0	0	0

[1] Includes cases for which further action is not warranted.

Mr. TRAXLER. Finally, could you again tell us of any legislative modifications made by State in their own animal welfare laws?

Mr. HAWKINS. A number of States have animal welfare legislation under consideration. These bills would do such things as allow humane officers appointed by animal welfare organizations to lawfully enter research facilities for inspection, make it a criminal offense to fail to provide proper care for animals used for scientific purposes, and prohibit any person or institution from using unclaimed impounded domestic animals for research purposes. The following States already prohibit the use of impounded animals for research purposes: Connecticut, Hawaii, Maine, Massachusetts, New Hampshire, New Jersey, Pennsylvania, Rhode Island, and Vermont.

Mr. TRAXLER. Thank you very much, and thank you for your appearance here today, Mr. Chairman.

Mr. WHITTEN. Mr. Natcher.

APHIS BUDGET REQUEST

Mr. NATCHER. Mr. Hawkins, how much are you requesting for Animal and Plant Health Inspection Service in fiscal year 1987? What is your total?

Mr. HAWKINS. We are requesting two hundred fifty-five million dollars.

Mr. NATCHER. Now, under your reductions that you point out in your statement to the committee, you have I believe a reduction of $50,805,000 in traditional programs. What do we have here, Mr. Hawkins? What do you mean? Traditional programs, we are requesting a decrease of $50,805,000 from the FY 86 funding now available for this category of programs. What do you have in mind now as far as this reduction?

PLANT PEST PROGRAM REDUCTIONS

Mr. HAWKINS. If I may, I will speak to reductions in the plant disease area first. The appropriation provided for grasshopper control in FY 1986 is not necessary for FY 1987 because of changes made by the Congress. One is that we can carry over any FY 1986 funds not used to FY 1987. Also, the Department of the Interior, through a provision in the Farm Bill, would be responsible for transferring funding to the Animal and Plant Health Inspection Service to control grasshoppers on Interior land .

Another reduction is in the witchweed program in the Carolinas. We have reduced the infested acreage by almost two-thirds of what it was originally.

We also plan to eliminate the noxious weeds program. We plan to eliminate the imported fire ant program, because of a lack of effective pesticides.

ANIMAL HEALTH PROGRAM REDUCTIONS

On the animal disease side, we have reduced brucellosis to about $63 million because the disease is not nearly as rampant as it was and we feel very confident that we can continue to show good progress.

The next proposed reduction is the pseudorabies program. We are completing five pilot projects in five different States, allowing us to terminate that funding.

In screwworm we are proposing a $4.5 million reduction since we are now in a barrier maintenance program. Until given authority to go further, we feel that the budget we are asking for is sufficient to hold the barrier. Also in the animal welfare area—as this committee remembers, I spoke to this last year—we believe that the States and affected industry, including the animal rights groups, and the Departments of Agriculture, could take care of the program. This will allow us to focus Federal funding in the high priority areas of surveillance, enforcement, and exotics.

We have also proposed to end funding for the boll weevil program, in North Carolina and South Carolina because we have achieved eradication and the growers are maintaining the barrier between South Carolina and Georgia. The last major reduction is in the animal damage control program, as we have already noted.

Mr. NATCHER. Thank you, Mr. Hawkins.

Thank you, Mr. Chairman.

EFFECT OF REDUCTIONS

Mr. WHITTEN. I have asked you to include in the record the effect of the reductions. I want that in detail. We will go over it and if it doesn't cover what we think it should, we will ask you to come back.

Mr. Watkins has a five-minute television appearance and I would ask you to stay until he gets back. He has something to say. This will give you time to think up your next answer.

HEPTACHLOR

In the meantime, may I direct your attention to the situation of the heptachlor problem in Arkansas. Would you give us a detailed report? An article was carried in the New York Times over the weekend and it was mentioned in the Post. We are familiar with what happened in Hawaii but you might tell us about the total problem. As I recall, we had a pretty tight line on them in Hawaii. Would you give us details on what occurred, how big it is, what the problem is, and how you expect to handle it?

We haven't had a budget request yet but I presume we will. Feel free to turn to someone who deals directly with it and I want him to be sure that the record shows the full story.

Mr. HAWKINS. I would call on Mr. Tracy then.

Mr. TRACY. Mr. Chairman, within my agencies the primary one that would be involved would be the Food Safety and Inspection Service. Their concern is residues in any cattle that would move to slaughter. The department has a much broader interest as a whole, one we are working on with FDA in terms of any health hazards from the dairy products themselves and we are very concerned about the economic well being of the farmers there.

Secretary Lyng has named a task force which I believe departs today to survey the situation. It includes members of ASCS, which is the agency that would handle any dairy indemnity program, members of the Food Safety and Inspection Service, and representatives of EPA and FDA. I am sure they will supply you with a copy of their report when they return.

I realize the economic problem for those affected dairymen is immediate and that is the reason for the Secretary's interest in trying to evaluate the situation as quickly as he can.

Mr. WHITTEN. Thank you very much.

I would like you to put in the record a statement on what happened in Hawaii, how we handled it, and what the restrictions and regulations were, and how it turned out.

Mr. TRACY. We would be glad to do that.

[The information follows:]

HEPTACHLOR CONTAMINATION IN HAWAIIAN DAIRY HERDS, 1982–83

In March 1982, heptachlor contamination was discovered in the milk of all 16 dairy herds on the Island of Oahu. The problem resulted from heptachlor-contaminated pineapple leaves that were fed to cows. The contamination persisted until March 1983, when all milk was again below the permitted tolerance level.

All 16 dairies received compensation under the Dairy Idemnity Program for contaminated milk removed from the market. Payments for FY 1982 losses totaling $6,113,797 were made in May 1983; payments for FY 1983 losses totaling $2,043,808 were made in February 1984.

These claims were handled in accordance with program regulations, which have been in effect since 1965, updated and reissued annually.

HEPTACHLOR CONTAMINATION IN DAIRY HERDS, 1986

In late February and early March 1986, 117 dairy herds in Arkansas as well as several herds in Missouri and Oklahoma were quarantined and their milk taken off the market because of contamination with the pesticide heptachlor. The source of contamination is believed to be feed sold by Valley Feeds, Van Buren, Arkansas, who made available to farmers feed containing a mesh by-product from a gasohol plant. The seed grain used in the gasohol production apparently had been treated with heptachlor.

The Arkansas, Missouri, and Oklahoma State Departments of Health began notifying producers on February 25 that their milk could not be marketed. Because of levels of contamination in the herds vary widely, the length of time that dairies will be unable to market their milk will range from a few weeks to as much as two years. As of March 25, 1986, 54 herds (35 in Arkansas, 8 in Missouri, and 11 in Oklahoma) were under quarantine; other herds suspected of contamination tested clear.

Manufactured milk products containing traces of heptachlor also were recalled in Arkansas and surrounding States. Unacceptable levels of the pesticide were found in fluid milk, ice cream, and cottage cheese made from the contaminated milk.

The Dairy Indemnity Program was enacted in 1964 specifically to address problems of this nature. The authorizing legislation was extended through September 30, 1990, by the Food Security Act of 1985. In December 1985, Congress appropriated $99,000 for the program. A reduction of $4,000 was made pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985. A rescission proposal for the balance of $95,000 was submitted with the President's FY 1987 budget.

Interim rules to implement the Dairy Indemnity Program to meet the current emergency are currently being reviewed by the Department's Office of the General Counsel.

EXTENSION SERVICE BUDGET

Mr. NATCHER. Mr. Chairman, would you yield?

Mr. Tracy, I am just going over your biographical sketch and it is good. I say that to you frankly. He was named wisest, outstanding young farmer of '80 by the State Jaycees. That is quite an honor, Mr. Tracy.

We have a budget before our committee now where we have a reduction of $187 million in the Extension Service, and in this agency we deal with a lot of young people throughout the 50 States and the Territories. I know it is not under your supervision, but how can we have outstanding young farmers and keep the young people in this country interested in agriculture when there are so few that want to live and work on the farms. How can we do that with a $188 million reduction in the Extension Service?

Mr. TRACY. Mr. Chairman, I appreciate and understand the thought behind your question. That is not in my area of responsibility and I just have to let it go at that in the position I am in at the moment.

Mr. NATCHER. I just thought that since, you know, you are a comparatively young man, you have a good record in agriculture, that maybe you would have some thought along that line. I don't want to ask a budget officer, I have already asked him.

Mr. Chairman, that is the only question I wanted to ask.

Mr. **Whitten**. You mean by reason of your present position you have quit having thoughts? Mr. Tracy, he asked what you thought, as I understood it.

Mr. **Natcher**. That is right. You think about it a little bit, Mr. Tracy.

Mr. **Whitten**. That is unduly restrictive I would think.

Mr. **Tracy**. Thank you kindly, I appreciate the opportunity, but I have to let it pass at this time.

Mr. **Whitten**. I congratulate you. I grew up on a farm. I decided the best thing to do was get a salary on the side. Is that what you decided?

Mr. **Tracy**. Yes, sir.

FARMER'S INCOME

Mr. **Whitten**. One of our problems here is that, with only two and a half percent of our folks on the farm, you don't have many of the new generation that know anything about farming. People may come from a farm family but they go somewhere else. They may come to Congress, and may be able as can be. But few new members will have much knowledge of agriculture.

We find many of our colleagues with the best intentions and very capable. They want to represent farmers and farm interests. But since World War II, the farmer's share of the consumer dollar has gone from 51 percent down to 27 percent because industry and labor have increased their take from 49 percent to 73 percent. Yet we have folks that really think the farmer ought to get by on what is left. They forget that buys from the high cost segment.

I looked up the figures and it is unbelievable, but you can't get the President or anybody to listen. The press won't listen, they won't carry it if you say it, because who is going to look at the two and a half percent when he can look at the 97½ percent?

This tabulation has changed since '41 when I came here. In 1940, and I quote, "We need to have 23 percent of our population on the farm in order to feed the rest of the U.S. In 1983, 2.3 percent of our population does the job.

Since World War II, the farmer's share of the consumer dollar dropped from 51 to 27 percent last year. While of course labor and industry's share has increased from 49 to 73 percent.

The farmer's cost, since he buys from industry and labor, has gone up almost 1100 percent since '45. His investment has increased almost 1200 percent but his price is up only 300 percent. How could anybody fail to recognize the danger of that? This is the biggest industry the Nation has, the biggest customer that labor and industry has, the cheapest and best supplier of food and fiber. Anybody can look at what is happening and see we are just headed downhill.

It is like church. The folks that go to church don't need it, it is the folks that don't go that need it.

We have insisted that the Department do what it can through television and radio. It does a good job but you need to get up at 6 o'clock like the farmers to listen.

If you have had time to think, what would you say, and if they would let you, Mr. Tracy?

Mr. TRACY. I certainly agree with you with regard to the cost price squeeze and the risk to agricultural policy input into the Congress caused by a reduction in numbers throughout the country. I am as concerned about that, Mr. Chairman, as you are, I am sure.

Mr. WHITTEN. You can see it can't last, can you not? Can't you see that agriculture will go down if we keep this up?

Mr. TRACY. Our influence in Congress and the number of people that we have such as yourself that have come from rural areas, and have some rural backgrounds, yes, it is bound to decrease. I am also concerned about that.

Mr. WHITTEN. There are about 434 members that think they know more about it than I do. Mr. Watkins.

BRUCELLOSIS IN OKLAHOMA

Mr. WATKINS. Thank you, Mr. Chairman. I am not one of those 434. I welcome you back, Mr. Tracy and Mr. Hawkins. I am very pleased to see that the chairman's state has moved from a Class C to a Class B brucellosis classification, and I know he is probably hoping it will move to Class A.

Brucellosis is one of my favorite topics to talk about, and hopefully to eradicate it. There is a proposed quarantine in the State of Oklahoma that APHIS has placed there because of a few cattle people not meeting test requirements. I think all of us want to move from trying to reduce the amount of infected herds and get a higher state classification to a full scale eradication. I don't think we will get to a full scale eradication as long as we continue using the same vaccine, the same procedures.

I notice you are reducing the amount of money in the budget by $7 million for the brucellosis reduction program. But, getting back to the situation in Oklahoma. Mr. Hawkins, as you recall you visited Oklahoma in July to meet with some of the cattlemen that had not followed the complete testing procedures. I was a little surprised when in December your office issued the threat of a quarantine. I really am, because I thought overall the state was moving in the right direction.

Now, to me, it seems a little severe when only about nine or ten cattlemen are not following the testing and you threatened the entire State of Oklahoma with a cattle quarantine. Don't you think that is a little severe, Mr. Hawkins, when you look at the entire situation? We have nine or ten cattlemen that are not following testing procedures. A quarantine would cost state cattlemen a lot of money. The cattlemen aren't guilty other than maybe those nine or ten that might not be following the proper testing procedure.

Would you like to elaborate on why such a drastic decision was reached?

Mr. HAWKINS. Yes, Mr. Congressman. We have a saying in the control of pests and diseases in the Animal and Plant Health Inspection Service that "it only takes one". When you are eradicating a disease or a pest invasion, one is too many, and as you apply that to infected animals, we stick with that scenario.

Mr. **Watkins**. I am glad you are not in charge of human health care and human disease care because we would be eradicating whole states because someone broke out with the measles or chicken pox.

Mr. **Hawkins**. My point is if you have one break in a program that allows the disease to disseminate and spread, in time the breakdown or lack of control will allow the disease to reinfest the country again. So we must take a hard line in the area of disease eradication in order to accomplish our goal and I believe firmly that the cattlemen by a large majority want to get brucellosis eradicated, as you stated.

Mr. **Watkins**. I agree with that totally, but I think that we need to be a little more rational in what we do. We should not penalize the entire state when nine or ten cattlemen are not following the testing procedures. We should take action against those ten. I can't believe that APHIS would quarantine the entire State of Oklahoma, Mr. Chairman, because of the inaction of nine or ten cattlemen in the hill country that have difficulty fulfilling the testing procedures.

I think there might be another motive behind your action, but you could at least have accommodated the state by working with the State Department of Agriculture and taking part with them in the lawsuit. Were you part of the lawsuit against those nine cattlemen?

Mr. **Hawkins**. No, sir, that was a state action. When the state's judicial system did not uphold the Oklahoma Agriculture Department's position we had to announce in the Federal Register our intentions for a quarantine.

Mr. **Watkins**. I have talked to you about this a great deal and the more I analyze it I can't believe that we are going to penalize the entire State of Oklahoma or propose that threat against the state.

What is the status of that threatened quarantine? As I understand it, the cattlemen involved have signed herd plans to test.

Mr. **Hawkins**. Yes, sir. The affected cattlemen that you have mentioned, as I understand it—I have not seen the report— have signed their herd plans and have stated that they will agree to test in the future. They will make three tests. The first test will be this spring, of the penned and pastured cattle. Then they will test five herds by the 15th of May. The range cattle will be tested by the 30th of June and if any of those herds are infected after that test, they will have a subsequent test. We understand that they have agreed to this.

Mr. **Watkins**. Are you proposing for the next 90 to 120 days to keep the quarantine against them? If they don't test out what do you do?

Mr. **Hawkins**. I don't like to use, if you will excuse me, the language of threat of quarantine.

Mr. **Watkins**. But, that is what your rule is proposing.

Mr. **Hawkins**. I appreciate that, but our responsibility as an agency is to respond when the system breaks down. As long as a state is in compliance with the uniform methods and rules, we do not have to take such action.

Mr. **Watkins**. Aren't you allowed to enter federal court to take action against those nine or ten?

Mr. **Hawkins**. No, sir. Even when we take action on an area, we cannot enforce it when the area is completely within the state.

Mr. **Watkins**. You say in an area, I indicated taking action against those nine or ten. I have never wanted an area quarantine or a state quarantine, because you are indicating everybody else is guilty. They are having to pay the penalty for the nine or ten that did not fulfill the testing procedure. I think this agency could go to a federal court and take action against the nine or ten. I want to know why that wasn't looked at as a remedy for the situation. Our legal counsel here in Congress assured me it could be done.

Mr. **Hawkins**. I would ask Dr. Atwell to respond.

Dr. **Atwell**. Mr. Congressman, the federal responsibility is with the interstate movement of diseased animals. We work through cooperative agreements, and memoranda of understanding with the States. Activities that are taken within the state are the state's responsibility.

Mr. **Watkins**. You are saying interstate but we have nine herds so to speak. Do you think that maybe state internal politics is affecting the solution; I think people could understand that.

Dr. **Atwell**. The Secretary has the authority to quarantine an individual herd but the problem is that the Federal Government can take no action against those people until the animals in fact move across the state line, which does not protect the rest of Oklahoma from the threat. Therefore, when we have individual herds that are placed under federal quarantine, then we want a concurrent state quarantine on those herds. The state was unable to take action on these. They have it under state quarantine but were unable to take action on the ten.

Mr. **Watkins**. So we are going to quarantine the whole state.

I don't want to take up too much of the time. The chairman has been very generous with his time. We are looking now at another 90 or 120 days with a threat over the State. I may be at the point, Mr. Chairman, of trying to ask this committee of saying there will not be any money utilized to carry out any type of quarantine over the entire State of Oklahoma because I don't think you are carrying out your responsibility if you are not willing to take action against nine or ten cattlemen not in compliance.

Mr. **Hawkins**. Mr. Congressman, we would be glad to have OGC review the question that you asked and submit a response from them.

Mr. **Watkins**. I would appreciate that.

[The information follows:]

United States
Department of
Agriculture

Office of
General
Counsel

Washington.
D.C.
20250

APR 07 1986

MEMORANDUM

TO : Mr. Bert Hawkins
Administrator, APHIS

THROUGH: Mr. John Golden JG
Associate General Counsel
Regulatory and Marketing

FROM : Mr. Ronald D. Cipolla R.D.C.
Assistant General Counsel
Regulatory Division

SUBJECT: Authority of the Secretary of Agriculture to Require the Brucellosis Testing of Cattle on ranches in Oklahoma.

Recently, you asked this office to provide you with a legal opinion concerning the authority of the Secretary of Agriculture to require herd owners in Oklahoma to brucellosis test cattle which are located on ranches in that state. This question arose out of the proposal to quarantine Oklahoma. Our understanding is that the question concerns cattle which are not in interstate or foreign commerce.

There is no provision of law which specifically authorizes the Secretary of Agriculture to require herd owners to test cattle for brucellosis that are not in interstate or foreign commerce. However, the Secretary of Agriculture does have authority to require that cattle located in the United States be tested for brucellosis as a condition of movement in interstate commerce in order to prevent the interstate dissemination of brucellosis (see, e.g., 21 U.S.C. § 111) or as a condition of exportation from the United States in order to promote the exportation of livestock (see, e.g., 21 U.S.C. § 112). The exercise of such authority would not have any effect upon those owners of cattle who have no intention of moving, and do not move, their cattle in interstate or foreign commerce.

Further, the Secretary of Agriculture has authority pursuant to 21 U.S.C. § 123 to quarantine the premises on which the cattle are located if the Secretary determines that the cattle are affected with brucellosis or that the contagion of brucellosis exists on such premises. The release of any such quarantine could be conditioned upon, among other things, the brucellosis testing of the cattle located on the premises. However, a quarantine imposed pursuant to 21 U.S.C. § 123 would have no effect on the intrastate movement of cattle from any quarantined premises. While 21 U.S.C. § 123 authorizes the Secretary to quarantine any state or portion of a state after he makes certain specified determinations, that quarantine is only violated when there is movement in interstate commerce in violation of the conditions of the quarantine. (See, 21 U.S.C. § 126).

Finally, the Secretary could seize, quarantine, and dispose of animals affected with or exposed to brucellosis pursuant to 21 U.S.C. § 134a(b) if the Secretary of Agriculture makes the findings necessary to declare an extraordinary emergency. We understand from officials of your agency that at the present time the Secretary is not in a position to make the findings necessary to invoke the "extraordinary emergency" provisions in 21 U.S.C. § 134a(b).

If you have any further question, do not hesitate to contact me.

* * *

Mr. **Watkins**. If there are any reactors in the herds, how long does Animal and Plant Health Inspection Service intend to leave the threat of quarantine on or will you continue if there are no reactors in the nine herds?

Mr. **Hawkins**. We would like to see the affected cattlemen act responsibly on these tests so that Oklahoma would be in concert with the rest of the nation as far as the uniform methods and rules are concerned. Once they show that they are in compliance, we have no reason to take action against the State of Oklahoma.

Mr. **Watkins**. It is my understanding the whole state has moved forward in the program.

And now, you are proposing to cut the program. Let me ask one last question. How will this reduction affect the state programs and how would this reduction affect the vaccinations on the state level?

Mr. **Hawkins**. We have adjusted the program, Congressman, to identify savings and adjusted it to have fuller cooperation from the state and the industry as we finalize the eradication of brucellosis. We have served notice that starting October 1 we will not pay for any more calfhood vaccinations.

Mr. **Watkins**. In the State of Oklahoma?

Mr. **Hawkins**. In the nation.

Mr. **Watkins**. Here we have a hot situation in the State of Oklahoma and now you are going to take the same action there as you do everywhere else. You are contradicting your whole programs as far as I am concerned.

Mr. **Hawkins**. We have about 40 states that are taking care of their own vaccination now and it is a real valid state and industry function. The industry vaccinates for other things and it bears the cost. We don't view this as anything different. The cost of owning an animal includes vaccination.

Mr. **Watkins**. In Oklahoma, the state budget shortfall is $467 million and the budget was based on $18 oil and it is now at $10. That is a loss of about $90 million. We are going to have the biggest outbreak of brucellosis because APHIS is not willing to target what dollars we have to remedy the problem.

Mr. **Hawkins**. It frees up money for whole herd depopulation and other parts of the program that we feel are very cost effective in achieving eradication.

Mr. **Watkins**. Mr. Chairman, besides working with Animal and Plant Health Inspection Service, I have been working with the Agriculture Research Service. On the other side of the coin, we have some new research being conducted on new brucellosis vaccines working in Oklahoma and Iowa. It includes field testing on a killed vaccine. If we keep dollars going in that research program we may be able to come up with a new vaccine that might help us eradicate this problem. I think you and I share a close feeling and concern about this because of our backgrounds and our cattlemen have the same problems. We eradicate brucellosis, but I think we must get a new vaccine before we are able to do it.

I hope you will be as compassionate as you can in dealing with these people in these areas that now are broke, trying to hang on, and now having a threat of quarantine. I hope you will look at what you have proposed and see if you can lift the proposed quarantine and take care of those nine or ten that are causing the problem, not the entire State of Oklahoma.

IMPORTED FIRE ANT

By having a district that borders Texas which already has an influx of imported fire ants, I have a concern about seeing funds continued in this program until we can wipe out the problem. Several reports have been made of ants being discovered in southern Oklahoma this year. Does APHIS continue to receive documentation of the problem?

Mr. HAWKINS. During FY 1985 APHIS did receive documentation of single-mound isolated finds near the border in Oklahoma. We understand treatments were made by the State. We are continuing to monitor the problem.

Mr. WATKINS. You have said that you need to turn the problem over to the States. But, border States such as Oklahoma have not had the problem before. Therefore, they don't have the experience in dealing with it. That's the reason we need an agency like APHIS that can work across State lines. What happens when it spreads into Kansas?

Mr. HAWKINS. We are not certain whether the Oklahoma infestations occurred due to natural spread or were brought in on uncertified regulated articles. Also, it is still not known whether the imported fire ant can survive in Oklahoma. It is highly doubtful the pest could survive in Kansas due to the harsher climate.

Mr. WATKINS. Based on current level of expenditures for the program, how long will it take to reach eradication?

Mr. HAWKINS. Eradication cannot be achieved given the lack of effective chemicals for large-scale control.

Mr. WATKINS. Is the current level of expenditures adequate to do the job?

Mr. HAWKINS. The absence of effective control tools able to gain EPA approval is the main problem we face in the imported fire ant program, rather than the level of expenditures.

WITCHWEED

Mr. WATKINS. What is the current status of the witchweed program with respect to release of quarantined acreage since 1980?

Mr. HAWKINS. At the beginning of 1980, approximately 385,000 acres were under Federal quarantine in connection with the witchweed program. From 1980 to the present, a total of 259,601 acres have been released from quarantine. With several thousand acres having been added due to natural spread of the pest, 144,325 acres remain under quarantine at the present time.

Mr. WATKINS. How many dollars have been spent on the witchweed program since a Federal quarantine was established in 1957?

Mr. HAWKINS. During those 29 years, APHIS has spent $93,220,047 on the witchweed program.

Mr. WATKINS. How many years will it take to eradicate witchweed at the current level of funding or with a slight increase in funding?

Mr. HAWKINS. A recent feasibility study concluded that eradication of witchweed could be accomplished in six years. Such a program would require an increase of approximately 15 percent above the current funding level.

Mr. WATKINS. What is the rationale for discontinuing Federal funding for witchweed eradication when all indications are that we can get rid of this problem in the foreseeable future?

Mr. HAWKINS. APHIS is discontinuing its role in the witchweed eradication program because we have successfully stopped the pest's spread and in fact eradicated it from much of the area it originally infested. Because witchweed is localized, we believe that the States can pick up the effort and prevent further pest spread.

BRUCELLOSIS QUARANTINE

Mr. WATKINS. What is the status of a potential quarantine of cattlemen in the State of Oklahoma because of a few cattlemen who refuse to cooperate with testing procedures?

Mr. HAWKINS. We published a proposal to impose a Federal quarantine on Oklahoma in the December 31, 1985, Federal Register. We took this action to protect other States from possible infection since a number of herd owners in Oklahoma were not following brucellosis testing regulations. The comment period ended on March 1, 1986. Since we first proposed the quarantine, the offending herd owners have agreed to follow brucellosis testing regulations and have signed herd plans. We are now reevaluating the situation in Oklahoma and the comments received on the proposal.

Mr. WATKINS. Now that the cattlemen have agreed to testing procedures, when will APHIS lift the threat of quarantine in the State of Oklahoma?

Mr. HAWKINS. The proposal required all herd owners to sign effective herd plans as well as carry out provisions of those plans. To date, the Oklahoma herd owners have signed herd plans and have agreed to follow brucellosis testing regulations. This is a very positive sign. If those owners carry out the herd plans we will not need to impose a quarantine on the State.

Mr. WATKINS. If the cattle herds are tested this spring and there are no reactors, will APHIS lift the threat of quarantine?

Mr. HAWKINS. If herd owners follow herd plans and comply with brucellosis testing regulations, we will not impose a quarantine on Oklahoma.

Mr. WATKINS. If there are reactors in the herds, how long does APHIS intend to leave the threat of quarantine in place?

Mr. HAWKINS. We will not impose a quarantine if herd owners with reactors follow herd plans and testing requirements.

Mr. WATKINS. In my opinion the solution has been resolved with the cattlemen agreeing to test their herds. The crisis is over and APHIS needs to lower the flag of war and retreat. The demands of APHIS have been met and it's time to let the cattle industry get back to where they were before the crisis was raised. It's not fair to continue to penalize the entire state because of a few individuals. I would hope that you would lift the threat of quarantine at the earliest possible date.

BRUCELLOSIS ERADICATION

Mr. WATKINS. I see that you have proposed about a $7 million reduction in the budget. Why are you proposing this reduction at a time that success is being achieved in this program?

Mr. HAWKINS. We can reduce program spending due to a continued reduction in the incidence of brucellosis and increased program participation by States and industry.

Since 1960, the State-Federal Cooperative Brucellosis Eradication Program has reduced the incidence of this disease from 1.2% to the current level of 0.26%, a 79% decrease. Nearly 90% of the remaining infection is concentrated in the States of Arkansas, Florida, Louisiana, Mississippi, and Texas. By the end of FY 1986, we expect that only 7 States will have Class B or C status—all other States will be in Free or Class A status.

The FY 1987 Budget continues a program begun in FY 1986, which leads to a gradual reduction in Federal participation in some areas of the brucellosis eradication program. The objective of the program is, with increased State and industry involvement, to bring all States to Class A status or better by the beginning of FY 1991. The program will focus on States with the highest level of infection and work to prevent the reintroduction of brucellosis into free and low incidence States. At the end of this period, the Federal effort will concentrate on primary surveillance, data gathering and dissemination, and compliance and enforcement. We expect State and industry cooperators to participate more in secondary surveillance, elimination of infected herds, and vaccination. Through this partnership, we should continue to reduce the incidence of this disease.

Mr. WATKINS. How will this reduction affect State programs?

Mr. HAWKINS. The FY 1987 reductions in the brucellosis program will be achieved by the reduced need for indemnity for reactors and by eliminating Federal payment for vaccination. Individuals or industry will have to assume the cost of vaccination since they receive direct economic benefits from the activity. Ordinary vaccinated replacement breeding animals will being a higher sale price in excess of the cost of vaccination.

Mr. WATKINS. How would this reduction affect vaccinations on a State level?

Mr. HAWKINS. The Federal government will stop paying for vaccination in FY 1987. Individual owners, the industry, or State governments will have to assume the cost of vaccination.

Mr. WATKINS. Is the current level of funding adequate to conduct the program?

Mr. HAWKINS. Yes, the current level of funding is adequate to conduct the program.

Mr. WATKINS. Does APHIS plan to propose Federal regulations restricting the movement of cattle from infected States to non-infected States in the future?

Mr. HAWKINS. At the United States Animal Health Association's October 1985 meeting, its members recommended changing the brucellosis eradication Uniform Methods and Rules to limit the movement of heifers from brucellosis exposed or infected herds. It also recommended restrictions on all cattle except steers, spayed heifers, and cattle from certified herds from Class C States by 1988 and from Class B States by 1990. We have distributed these recommended changes to interested organizations and individuals as a proposal with a comment period ending on March 28, 1986.

At that time, USDA will review submitted comments. If USDA does decide to adopt USHA's recommendation to revise the UM&R, similar requirements will be proposed for addition to the Code of Federal Regulations.

Mr. WATKINS. When does APHIS plan to propose this measure?

Mr. HAWKINS. We will carefully review all submitted comments on the proposal before taking any action.

Mr. WATKINS. Your budget reflects the number of known infected herds has dropped from last year, but, that is all the more reason to not reduce the level of funding for this program. Does APHIS still plan to get out of the brucellosis business in five years even if the program is not licked?

Mr. HAWKINS. The FY 1987 budget continues a program, begun in FY 1986, which leads to phasedown of Federal participation in some areas of the brucellosis eradication program by the beginning of FY 1991. With increased State and industry involvement, we plan to bring all States to Class A status or better by 1991. At that time, the Federal program will consist of disease surveillance and reporting, and enforcement of interstate regulations. Even though the Federal effort will be phased down, we expect progress in the eradication effort to continue with States and industry involved in secondary surveillance, elimination of infected herds, and vaccination.

Mr. WATKINS. I believe I can speak for the other members of this committee when I say that we want eradication and not just a reduction of infected herds for States to become Class A States. The only way to get rid of the problem in Oklahoma, Mississippi and others is to continue to fight and not lessen our efforts while we are making progress. I was pleased to see that the Chairman's State was moved from a Class C to a Class B State this last year. But, let's not stop until it is eradicated.

If Canada can eradicate the disease, I know that we can do the same.

SCREWWORM

Mr. WATKINS. What is the status of the screwworm eradication program?

Mr. HAWKINS. The program has accomplished the original goal of the screwworm eradication program. It has eradicated the pest down to longitude 93° at the Isthmus of Tehuantepec and established a barrier zone to prevent reinfestation of the freed areas to the west and north. The program now maintains the sterile fly barrier across the Isthmus of Tehuantepec and quarantine stations, which prevent the movement of infested animals from the east to the freed areas.

Mr. WATKINS. What action has been taken by APHIS following the release of a report to the Congress last March concerning screwworm eradication in Central America?

Mr. HAWKINS. APHIS has taken a number of actions as a result of this report. At this time, diplomatic and legal reviews are underway for the Mexico-U.S. Screwworm Commission to establish agreements with Guatemala and Belize to initiate screwworm programs in those countries. The U.S. and Mexico State Departments are presently reviewing a proposed amendment to the 1972 agreement which would allow for eradication of screwworm in the remaining areas of Mexico and initiate a program in Central America to the Isthmus of Panama. USDA has also met with Central American Ministries of Agriculture officials concerning the expansion of the screwworm program.

Mr. WATKINS. What plans do you propose or have for the immediate future for the screwworm program? What are your long-term plans?

Mr. HAWKINS. For the immediate future we propose to eradicate screwworms from the remaining infested areas in Mexico. Our long-term plans include the eradication of screwworms in Central America, the Caribbean Basin, and the establishment of a barrier zone at the Isthmus of Panama.

Mr. WATKINS. Is the current level of funding adequate to conduct your existing program?

Mr. HAWKINS. The current level of funding is sufficient to produce sterile flies to maintain the barrier at the Isthmus of Tehuantepec and conduct limited eradication activities in the remaining infested areas of Mexico.

Mr. WATKINS. Are further funds needed for the screwworm program?

Mr. HAWKINS. Present funding is adequate for the maintenance of a sterile fly barrier at the Isthmus of Tehuantepec and an eradication program in the remaining infested areas of Mexico. However, additional funds would be needed for a Central American eradication program.

Mr. WATKINS. Thank you, Mr. Chairman.

CONCLUDING REMARKS

Mr. WHITTEN. Thank you, and may I thank all of you for being here. The situation makes you want to cry and to laugh. But how shortsighted a Nation can be I don't know. I think the Department of Agriculture has done a whale of a job and deserves a lot of credit for the fact that two and a half percent of our people can supply our basic food requirement. But I don't see how anyone could come up with this new farm bill where, if land gets in bad enough shape, they will pay a fellow to do something about it, but in the process they want to cut out the old program.

This year's budget calls for reducing our conservation programs down to $350 from some $600 million, which shows what they are headed for. Anybody familiar with the ACP program realizes that the farmer has paid about two-thirds of the cost. It is true that the last few years the farmer hasn't done the same job because he hasn't had the money. But I can't see how they think the biggest industry can go into bankruptcy and how they think we can neglect conservation as is proposed.

I want you to put in the record what you will do if the 1987 budget is adopted. How we could cut down on conserving our soil and neglect our own country to increase the carryover for military spending from $244 to $299 billion I just can't understand.

The standard of living in most any country is determined by how much of the time people have to spend digging in the ground, just to eat. Our standard of living is higher than other nations, yet, we threaten to destroy it because people do not understand the danger. It kind of gets you sometimes that you can't get that message over.

The Senate has adopted a rule that they can't spend anything without cutting an equal amount somewhere else. We must pay these fellows who signed up to take their land out of production or want to. But the Senate rules won't let them approve funds for that unless they cut something else. So it is the Senate rule that has it tied up. We gave them the first fiscal year to sign up, but they want two. So we went along with that. But now we are tied up with a Senate rule that says they can't use the funds they already have.

This isn't your problem. You have other problems.

Mr. Akaka and Mrs. Smith were unable to be here today but they have some questions they would like answered for the record.

[The questions and answers follow:]

WAIMANALO STERILE FLY REARING FACILITY

Mr. AKAKA. Mr. Hawkins, the Agriculture, Rural Development, and Related Agencies Appropriations Bill for FY 1986 contained an additional $1,901,000 for construction of the Waimanalo Sterile Fly Facility in Hawaii. This was in addition to amounts available in previous years for the Hawaii facility. What is the status of construction of the Waimanalo facility?

Response. Congress originally appropriated $3,800,000 in FY 1981. The architect-engineer contract was awarded in March 1984, whereupon APHIS was advised that the facility could not be completed within funds available and meet Congressional intent. Congress appropriated an additional $1,901,000 in FY 1986. Modification of the architect-engineer contract scheduled for early calendar year 1986 was completed on schedule. We still expect to award a construction contract in early October 1986, with construction of the facility to be completed by April 1988.

Mr. AKAKA. Identify amounts appropriated for the Waimanalo Sterile Fly Facility by fiscal year and state whether you anticipate any shortfall in funding for construction or equipment for the facility.

Response. In FY 1981, $3,800,000 was appropriated for the construction of this facility. In FY 1986, an additional $1,901,000 was appropriated. We do not anticipate a shortfall.

Mr. AKAKA. Will APHIS be able to construct and equip the facility as planned with the funds currently available?

Response. We expect the funds available to be sufficient for construction and equipping the facility as planned.

Mr. AKAKA. Which fruit fly species will this facility be able to produce, and what will be the capacity of the Waimanalo facility?

Response. The Waimanalo sterile fly facility will initially produce sterile Mediterranean fruit flies with the capability of producing Oriental and melon flies. The Waimanalo facility will have the capacity [illegible] produce 500 million sterile fruit flies per week.

Mr. AKAKA. What is the capacity of other APHIS sterile fly rearing facilities in Hawaii and elsewhere?

Response. The existing facility in Honolulu, Hawaii has the capacity to produce 100 million Medflies per week. The temporary facility at Mission, Texas, is producing 10 to 12 million sterile fruit flies per week. The facility under construction at Mission will have the capacity to produce 20 million flies per week. The Metapa, Mexico facility is capable of producing 500 million sterile fruit flies per week. The facility at Petapa, Guatemala has the capacity to produce 150 to 100 million flies per week but is undergoing an expansion to increase the production level to 400 million per week.

Mr. AKAKA. What sterile fly rearing capacity is necessary to undertake a simultaneous sterile insect release method eradication program for all species of fruit flies which infest Hawaii?

Response. The volume of sterile fly rearing capacity would depend upon the density of fruit fly populations. Assuming fruit fly populations of 1,000 adults per square kilometer, 74,000,000 sterile flies would have to be produced weekly for a minimum of 6 months.

Mr. AKAKA. What sterile fly rearing capacity is necessary to undertake a species-by-species sterile insect release method eradication program in Hawaii?

Response. Assuming fruit fly populations of 1,000 adults per square kilometer, approximately 24,800,000 sterile Medflies; 24,800,000 sterile Oriental fruit flies; and 24,800,000 sterile melon flies would have to be produced weekly for a minimum of 6 months.

Mr. AKAKA. What steps have been taken in the past year to improve your understanding of the means by which sterile insect release methods could be used against Hawaii's fruit fly infestations?

Response. During the past year, the methods development laboratory in Honolulu, Hawaii has been working to improve the quality of the flies released. Gains have been made to improve adult sturdiness and increase the survival rate of shipped pupae.

Mr. AKAKA. What steps will you take this year to improve your understanding? Identify where this work will be undertaken, by amount.

Response. This year we plan to improve the rearing process of sterile flies. At present, the return rate for sterile fly survival from egg to adult is 38 percent. We hope to improve that rate with better feeding, storage and shipping methods. In addition, ARS is going to study the possibilities of genetic fixing which would allow APHIS to rear only male adults for sterile release. Most of this research is being done in Honolulu, Hawaii but recommendations are also made from Metapa, Mexico and Petapa, Guatemala.

Mr. AKAKA. What is the total sterile fly rearing capacity that is necessary to respond to fruit fly outbreaks in Florida, Texas, California, and other areas prone to fruit fly outbreaks?

Response. The rearing capacity necessary to respond to any outbreak is dependent upon the size of the outbreak. As a rule, the release of 50 to 100 sterile flies to one wild fly is the ratio used to achieve eradication. Successful eradication of the Miami, Florida, outbreak in 1985 required the aerial release of approximately 272 million sterile flies over a 10-week period.

Mr. AKAKA. What capability exists to expand the Waimanalo facility by increasing sterile fly rearing capacity within the structure as currently planned?

Response. APHIS will have the ability to increase the fly rearing capacity somewhat, but not significantly. A technological change allowing for better utilization of available space would be needed to significantly increase production above the planned amount.

Mr. AKAKA. What capability exists to expand the Waimanalo facility by expanding the facility at a later date?

Response. The facility at Waimanalo can be expanded by construction as Hawaii makes more land available and the need for a larger facility exists.

TASK FORCE REPORT—ALTERNATIVE QUARANTINE TREATMENT

Mr. AKAKA. Mr. Hawkins, in the Secretary's report to Congress on Alternative Quarantine treatments, under the heading "Research Program for Control and Eradication of Fruit Flies" [part IV(B)(1)(a)], you state that "Research based recommendations will soon be published endorsing the use of a trimedlure sustained release delivery system for a Mediterranean fruit fly (Medfly) survey." Where will these recommendations be published, and what will be the significance of these recommendations for fruit fly infested areas in Hawaii and elsewhere?

Response. The recommendations will be published by the Agricultural Research Service as part of a scientific paper. Survey and population studies will be affected by these recommendations. The sustained-release delivery system will provide an increased duration of attractancy with the same amount of storage space, and a decrease in labor costs.

Mr. AKAKA. Under the heading of Basic Research Initiatives [part IV(B)(4)(b)], you state that "Trials have been scheduled using applications of an organic insecticide in lieu of the conventional treatments". Mr. Hawkins, what is the nature and origin of this organic insecticide and where and when will these trials take place?

Response. Research conducted in Vienna, Austria, last year indicates selected strains of *Bacillus thuringiensis—Bt*—offer some promise as a substitute for malathion in bait sprays. It is expected that screening of selected strains will be conducted later this year under laboratory conditions in Honolulu, Hawaii; Mission, Texas; Gainesville, Florida; and Guatemala City, Guatemala.

Mr. AKAKA. Under the heading of Basic Research Initiatives [part IV(B)(5)(b)], you state that "A field trial has been on an island in the South Pacific to determine the efficacy of a male annihilation treatment against the melon fly". Mr. Hawkins, where will this field trial take place and how will the male annihilation field trial be executed?

Response. The melon fly male annihilation trial has been scheduled to take place on Rota, one of the northern Mariana Islands which lies approximately 30 miles north of Guam. The Agricultural Research Service has developed a field trial with aerial and ground treatments of malathion-laced attractants.

Mr. AKAKA. To what extent could a male annihilation eradication approach be used against Hawaii infestations of (1) Medfly, (2) Oriental fruit fly, or (3) melon fly?

Response. Currently the male annihilation technology exists only for Oriental fruit fly. The success of eradicating Oriental fruit fly has been proven in urban areas. The appropriateness of this technique in remote or isolated areas has not been demonstrated.

Mr. AKAKA. Under the heading of Methods of Development Initiatives [part IV(C)(4)(a)], you state that "MFF populations in the Texas Rio Grande Valley are successfully being controlled by biweekly releases of sterile flies. The degree of control has been determined to be sufficiently adequate to warrant certification without fumigation". Describe in greater detail this initiative to control Mexican fruit fly infestations in the Rio Grande Valley.

Response. The freeze that occurred during 1983 affected the capability of the lower Rio Grande Valley to produce citrus fruit. The lack of available Mexican fruit fly host material and a suspected reduction of native populations provided an excellent opportunity to further reduce the populations through the use of sterile flies. Prior to the freeze, approximately 5 million sterile flies were released weekly in parts of the valley. A decision was made to increase the weekly release of sterile flies to a minimum of 8 million, and increase the release area valley-wide.

Mr. AKAKA. What plans do you have to extend this control program to other areas and what areas could potentially be candidates for such a program?

Response. There are no plans to extend this exact program to other areas. This control program is specific to the Mexican fruit fly situation in the Rio Grande Valley of Texas. A severe freeze occurred in December 1983 allowing APHIS to take advantage of reduced host material and low Mexican fruit fly populations by releasing an increased number of sterile flies. These activities were successful in reducing the level of infestation to allow certification of citrus without requiring fumigation. However, areas with sizable existing fruit fly infestations would require some use of pesticides to reduce populations to a level where the sterile release method would be capable of achieving the desired result.

Mr. AKAKA. To what extent would such a control program be effective in infested areas of Hawaii?

Response. Because of the high fruit fly populations in most of Hawaii, the specific technology used in the Mexican fruit fly program would not be an effective control tool. ARS does however plan to conduct trials on the island of Kauai, utilizing the sterile release method.

Mr. AKAKA. In what way does this program differ from the fly free zone concept?

Response. The Mexican fruit fly control initiative occurs in an area considered generally infested and under quarantine regulation. The fly free zone concept embraces the philosophy that the area is free of exotic flies or populations have been eradicated.

Mr. AKAKA. Provide a copy of your February 15, 1986, report to Congress on Alternative Treatments for Fruits and Vegetables.

[The information follows:]

Report to Congress on Alternative Quarantine Treatments for Fruit and Vegetables

By the Secretary of Agriculture

February 15, 1986

Purpose

The Secretary of Agriculture was directed to continue the task force on alternative quarantine technologies for the disinfestation of fruits and vegetables by the United States Congress (House Report No. 98-809 to accompany H.R. 5743, May 30, 1984, see House Report No. 99-221). A report was requested updating the activities of the Department of Agriculture subsequent to those reported to the U.S. Congress on February 25, 1985. The Committee further requested that a report be provided on the development of fruit fly eradication techniques. The following report is submitted to fulfill these requests.

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I. Regulatory Status of Quarantine Treatments

A. Ethylene Dibromide (EDB)

The fumigant EDB was used as a quarantine treatment for control of fruit flies in fruit and vegetables until its registration was canceled for most uses effective September 1, 1984. A brief regulatory history was given in the February 15, 1984, United States Department of Agriculture (USDA) report to the U.S. Congress and will not be repeated here.

Subsequent to the September 1, 1984, cancellation, the Environmental Protection Agency (EPA) has issued several additional regulatory notices on the use of EDB as a quarantine treatment.

- Export Markets - EDB fumigation is still permitted for citrus and papaya destined for markets outside the United States. EDB treatment of citrus for export may occur only during the period October to January. EPA extended the EDB export treatment period for citrus to May 31, 1985, on a one-time basis only.
- Mango - EDB fumigation of mangoes imported into the United States is no longer permitted. EPA had established a 30 parts per billion (ppb) temporary residue to tolerance which expired September 1, 1985. After that date, no detectable residues of EDB are permitted. On November 27, 1985, EPA announced in the Federal Register their intent to reestablish the 30 ppb tolerance. The public comment period ended January 10, 1986. There has been no official notice of the final decision as of January 28, 1986.
- Other Imported Fruit and Vegetables - EPA has issued notice that all other fruit and vegetables must have no detectable residues of EDB.

B. Disinfestation of Fruit and Vegetables by Irradiation.

The use of ionizing irradiation as a food treatment is regulated under the Federal Food, Drug, and Cosmetic Act. The Food and Drug Administration (FDA) has issued a proposed regulation on use of irradiation of 100 kilorads or less for disinfestation treatment of fruits and vegetables. FDA received over 4,000 comments in response to the February 14, 1984, proposal, evaluated the comments, and submitted a final rule to the Office of Management and Budget (OMB). As of January 28, 1986, OMB had not completed its review.

II. Quarantine Treatments Currently Available

A. Citrus

1. Domestic Markets

USDA regulations require treatment of Texas citrus moving to other citrus-producing States only when the population of the Mexican fruit fly exceeds specified levels. Methyl bromide (MB) fumigation has been approved for Mexican fruit fly in citrus.

Citrus-producing States require the treatment of Florida citrus because of the presence of the Caribbean fruit fly. MB has been approved as a treatment for Florida citrus for this pest. However, because of the occurrence of citrus canker disease in Florida, USDA regulations currently prohibit the movement of Florida citrus to other citrus-producing areas.

2. Export Markets

Japan requires quarantine treatment for the Caribbean fruit fly in citrus from Florida. A number of treatments have been approved by Japan as alternatives to EDB.

a. Cold Treatment

An intransit (on-board ship) cold treatment procedure was developed in the United States and approved by Japan. This procedure was used during the 1983-84 season, however, phytotoxic effects were encountered. Therefore, this procedure was not used this past season. Japan has subsequently approved a shorter cold treatment schedule that includes requirements that fruits originate from a "low outbreak area" and that a sample of 1,500 fruits be examined per shipment. If infestation is discovered in the sample, the shorter procedure would not be permitted and the original cold treatment procedure must be applied. We anticipate that the shortened procedure will improve the quality of the fruit.

b. Methyl Bromide

MB fumigation has been approved by Japan. No commercial shipments have been made.

B. Papaya

1. Domestic Market

A treatment procedure (double-dip) that involves the selection of fruits by the degree of ripeness followed by immersion into two hot water baths is approved for movement of papaya from Hawaii to the mainland United States.

Vapor heat is an accepted method but has not been used for interstate commerce.

2. Export Market

EDB and vapor heat treatments have been approved by Japan.

C. Mango

There is no acceptable alternative treatment to EDB for quarantine treatment of mangoes.

III. Research Program to Develop Quarantine Treatments

A. Grapefruit

1. Mexican Fruit Fly Treatment for Texas Grapefruit

a. Methyl Bromide

Tests have shown that grapefruit fumigation immediately following degreening resulted in fruit damage. Also, if treated fruit was stored at 50° F or less, phytotoxic effects resulted. However, if treated fruits are held at 60° F, no significant damage occurred. Further tests will be conducted to identify other factors that contribute to phytotoxicity. Completion date will be determined by the number of factors influencing phytotoxicity.

b. Heat Treatment

Phytotoxicity problems have been encountered, therefore, this research will be temporarily postponed.

c. Larval Detection Combined With a Treatment for Eggs

Research on a device that will reveal all stages of fruit fly larvae in the host commodity by detection of vibrations is still in the early developmental stage. It will be several years before such technology could be used on a practical quarantine basis.

d. Irradiation Treatment

Preliminary laboratory data indicate that irradiation will kill Mexican fruit flies infesting grapefruit. Since the severe freeze 2 years ago, fruit availability has been limited; therefore, 2 years of additional laboratory and commercial scale tests are needed.

2. Caribbean Fruit Fly Treatment for Florida Grapefruit

a. Methyl Bromide

The dosage of 2.5 pounds methyl bromide in a 1,000 cubic foot fumigation chamber for 2 hours that is currently used results in no significant damage to grapefruit stored at 60° F. However, when fruit was treated and stored at 50° F, the decay rate was 2 to 4 times that of untreated fruit, depending on harvest date. Industry believes that mid- and late-season fruit shipped to Japan should be stored at 50° F to avoid excessive decay. Results to date show that, in general, a posttreatment temperature of 60° F is better than 50° F.

b. Larval Detection Combined With a Treatment for Eggs

The research program for Caribbean fruit fly detection is the same as described for Mexican fruit fly above (See II,A,1).

c. Heat Treatment

Results to date have been discouraging. We have not been able to kill all life stages of the Caribbean fruit fly without damaging the fruit. Therefore, this program will be deemphasized.

d. Irradiation Treatment

Phytotoxicity research is complete to 100 kilorads, but additional laboratory data on efficacy of pest kill are needed to establish irradiation treatment parameters for Caribbean fruit fly. Thereafter, confirmation tests will be needed on the recommended minimum dosage that will provide quarantine security. It is estimated that the complete data requirement on insect control will be fulfilled in 1986.

B. Oranges and Tangerines

1. Mexican Fruit Fly Control With Methyl Bromide

Phytotoxicity is not a problem with Mexican tangerine. Of 14 varieties of oranges tested, no phytotoxic effects were encountered if the diameters were greater than 2 3/4 inches. For smaller oranges, 17.5 to 100 percent injury was noted. Further, the fruits are subject to injury if cold temperatures are used to aerate treated fruits. This program will be continued for another season to determine if a different treatment schedule would provide quarantine security without phytotoxic effects.

2. Caribbean Fruit Fly With Methyl Bromide

Efficacy and phytotoxicity tests are in progress. When treated honey tangerines (Murcott) were stored at 60° F or 70° F, no decay was observed after 9 days; but, at 40° F and 50° F, decay was twice that of the untreated fruit. Decay and peel injury did not exceed 5 percent with Valencia oranges. Oranges were found to absorb more MB than grapefruit; therefore, a lower dosage may provide quarantine security. Additional research has confirmed the above results. Therefore, two seasons of testing are required to develop a new treatment schedule.

C. Papaya

1. Melon, Mediterranean, and Oriental Fruit Flies for Hawaiian Fruit

a. Refinement of Double-Dip

Initially, significant phytotoxic problems were encountered. By reducing the first hot water immersion from 40 to 30 minutes and redefining the ripeness selection standards, the phytotoxic problems encountered have been reduced from more than 10 percent to less than 1 percent for one packing plant. At another packing plant, phytotoxicity has been significantly reduced but still ranges from 0 to 10 percent. The differences between the two packing plants are due to differences in hydrocooling. Generally those packing plants that are following all the recommendations stringently are experiencing less injury than those that are not. Further tests are being conducted to allow a greater degree of ripeness without sacrificing quarantine security (complete within a year).

b. Methyl Bromide

Phytotoxic problems have been encountered; therefore, further tests will be conducted only to determine if the program will be continued.

c. Irradiation Treatment

Published research data are sufficient to prescribe a papaya irradiation quarantine treatment, and further research is not necessary. The insect larvae must absorb a minimum dosage of 15 kilorads to provide quarantine security. USDA will publish the regulatory requirements when FDA issues final approval for the use of 100 kilorads or less for fruit and vegetable disinfestation.

d. Mechanical Larval Detection Device Combined With Other Treatments for Eggs

This research program is still in the early developmental stage and should be considered long-term (2-5 years). If a larval detection device can be developed, fruit with worms can be killed with a minimum of heat based on past knowledge of the three fruit flies found in Hawaiian papaya.

D. Mango

1. Caribbean Fruit Fly Treatment by Heat

a. Hot Water Immersion

Research to date shows that immersion in water at 115° F will kill all stages of the Caribbean fruit fly without injury to mangoes. Other temperatures are also effective but are not as suitable. The required research for an acceptable quarantine treatment schedule will be completed in 1986 for most commercial varieties.

b. Irradiation

Published data indicate that mangoes are reasonably tolerant to irradiation at the dosages necessary to provide quarantine security. Efficacy tests for the Caribbean fruit fly in three varieties of Florida mangoes will be completed in 1986.

2. Mexican Fruit Fly Treatment by Heat

Research results for Mexican mangoes have been as encouraging as that for the Caribbean fruit fly. We expect to complete research for four varieties of mangoes in 1986.

3. West Indian Fruit Fly Treatment by Heat

The Haitian mango (Francis variety) is very tolerant to heat. Phytotoxicity was not encountered with immersion for 150 minutes in water at 115° F. Preliminary data indicate that less than 75 minutes would be required to kill the West Indian fruit fly (*Anastrepha obliqua*). Research for an acceptable treatment schedule will be completed in 1986.

IV. Research Program for Control and Eradication of Fruit Flies

A. Introduction

1. During 1985, research and regulatory agencies within the Department undertook a multifaceted approach to respond to the need for improving methods of controlling and eradicating fruit flies. This approach, because of data gap interrelationships, tiered the existing and emerging control and eradication technologies to overall fruit fly program problems.

2. Initiatives implemented included basic research and methods development activities in the United States and cooperation with foreign governments. Those activities are outlined as follows:

B. Basic Research Initiatives

These activities and results provide action Agencies with the required biological foundation to expand and adapt technologies to program use.

1. Fruit Fly Detection

   a. Research-based recommendations will soon be published endorsing the use of a trimedlure sustained release delivery system for a Mediterranean fruit fly (Medfly) survey. This system will maintain the efficacy of survey programs at a reduced cost.

   b. Research efforts continue to improve or modify conventional lures to increase attractancy, refine delivery systems, and develop alternatives.

2. Fruit Fly Identification

   a. Investigations are underway to determine the identity of fruit flies, specifically, Anastrepha species and their host relationships. This work has targeted primarily the adult stage.

   b. Other work is underway utilizing the cuticular hydrocarbons of the immature stages in the process of identification.

3. Fruit Fly Host/Pest Relationships

   a. Studies are underway in the United States, Mexico, Brazil, and certain Caribbean and Central American countries to determine the infestability of specific commodities. Studies consider commodity susceptibility to infestation, maturation stage of host at time of oviposition, and condition required to achieve commodity infestation. This research has been implemented to complement certain quarantine treatments and provide a biological basis for control decisions.

4. Fruit Fly Control

   a. Efforts continue to determine parameters to increase the numbers of sterile flies produced while enhancing the quality of the fly.

   b. Trials have been scheduled using applications of an organic insecticide in lieu of the conventional treatments.

   c. The development of production zone research protocols to complement quarantine treatments is being addressed. Trial areas have been identified for a mango area in Belize and a melon production area in Brazil.

   d. Other technologies being examined for adaptation into the program include remote sensing to identify host material occurring in secluded areas and aircraft guidance systems to improve treatments.

5. Fruit Fly Eradication

   a. Studies and trials continue employing various treatment strategies using sterile flies. These efforts have been dedicated to Medfly and Mexican fruit fly (MFF) research activities.

   b. A field trial has been scheduled on an island in the South Pacific to determine the efficacy of a male annihilation treatment against the melon fly.

   c. Gains achieved under the control section are applicable under this (eradication) heading.

C. Methods of Development Initiatives

These serve to expand and adapt basic research findings to operational activities.

1. Fruit Fly Detection

   a. Studies to increase lure attractancy using bacteria modified food baits are underway in both the United States and Mexico.

   b. Operational trials have been implemented in Guatemala to detect Medfly using traps baited with the trimedlure in a sustained release delivery system.

   c. Provided technical assistance and oversight responsibility for the implementation of a detection program in certain countries in the Caribbean and Central America. These programs will determine the presence or absence of certain fruit fly species.

d. Fruit fly trapping guidelines entitled "Surveys by Foreign Governments for Exotic Pests--Fruit Fly Detection Procedures" have been prepared and distributed.

e. Guidelines have been drafted identifying research needs or operational actions resulting from fruit fly detections.

2. Fruit Fly Identification

a. Procedures have been reestablished to identify program collected fruit fly specimens. These identifications are performed and confirmed by specially trained identifiers.

3. Fruit Fly Host/Pest Relationships

a. Efforts are underway in the United States, Mexico, and Guatemala to determine fruit fly host preferences. This activity targets commodities that may be offered for export from or entry into the United States complementing quarantine treatments.

b. Field observations and literature reviews have determined in at least one instance that a certain Anastrepha species does not infest fruits or vegetables moving in national or international commerce. This determination will be significant when monitoring protocol areas.

4. Fruit Fly Control

a. MFF populations in the Texas Rio Grande Valley are successfully being controlled by weekly releases of sterile flies. The degree of control has been determined to be sufficiently adequate to warrant certification without fumigation.

b. Wild MFF populations in Mexico, along the Rio Grande River and in the State of Baja Notre, continue to be suppressed through the release of sterile flies.

c. A protocol developed cooperatively between the United States and Mexico outlines mechanisms to reduce infield fruit fly populations to a level acceptable for quarantine treatment.

d. The success and maintenance of the Medfly eradication program in Mexico hinges upon the release of sterile flies. This activity has been expanded to include Guatemala since the opening of the rearing facility at Petapa, Guatemala.

e. Rearing of sterile flies continues to be an art form requiring innovative approaches. Experimentation with various diets, control of microbes, and rearing philosophies has been ongoing.

f. Written guidelines have been prepared for the development and evaluation of export-zone proposals for pest-free commodities.

The guidelines require managing pests at a level below quarantine significance. This concept supported by literature citings, trapping data, and field observation has facilitated the international and national movement of Florida and Texas citrus. In addition, these procedures have provided a basis for maintaining certification procedures for certain Mexican commodities (peaches and apples) from approved production zones.

5. Fruit Fly Eradication

a. Achievements have been documented in the development and refinement of sterile release apparatus and insecticide mixing equipment. These successes contributed to the 1985 eradication of Medfly in Florida (using a combination of insecticide application and sterile insect releases) and the oriental fruit fly eradication project in California.

b. The Central America/Panama eradication program planning continues. Program success will rely on an effective detection program (trapping and fruit cutting), minimum insecticide applications, mass releases of sterile flies, and/or a quality regulatory program.

MALAYSIAN FRUIT FLY

Mr. **Akaka**. What is the nature and extent of the Hawaii's infestation by the Malaysian fruit fly?

Response. The extent of the Malaysian fruit fly infestation in Hawaii is limited to the island of Oahu. Surveys have revealed the pest to be widely distributed throughout the island in small urban and rural gardens. The Malaysian fruit fly attacks all pepper varieties and some varieties of eggplant.

Mr. **Akaka**. What efforts will be undertaken to learn more about the nature of the Malaysian fruit fly infestations in FY 1987? Identify the amounts to be expended by activity and location.

Response. APHIS has no efforts currently planned to study the infestation in Fiscal Year 1987. It is our understanding that the Agricultural Research Service has implemented a quarantine treatment program.

CENTRAL AMERICAN MEDFLY ERADICATION PROGRAM

Mr. **Akaka**. What would be the benefits of establishing a Medfly barrier at the Darien Gap in Panama?

Response. Eradication of the Medfly from Central America and Panama is technically and operationally feasible. It is supported by the people and the governments of the region, as it could improve the standard of living in the area and result in reduced use of pesticides. Eradication would have a significant beneficial impact on the pest free movement of agricultural crops thereby reducing the possibility of entry and establishment of the pest in the United States, and Caribbean, and other noninfested areas of the world.

Mr. **Akaka**. In undertaking an eradication effort to establishing a Medfly barrier at the Darien Gap in Panama, to what extent would it be possible to initiate eradication effort that would simulate the most promising approaches to eradicating fruit fly infestations in Hawaii?

Response. The situation is more complex in Hawaii than in Central America because of the existence of 3 fruit fly species. One option in Hawaii is to eliminate the Mediterranean fruit fly first. The Mediterranean fruit fly program in Central America will provide valuable experience and insights which can be transferred to the program in Hawaii.

Mr. **Akaka**. How would such a simulated eradication effort be accomplished?

Response. Program success will rely on an effective detection program, minimum insecticide applications, mass release of sterile flies, and or a quality regulatory program. The program in Central America will demonstrate our technological ability to eradicate Medfly.

Mr. **Akaka**. Please provide a copy of the APHIS proposed Central American Medfly eradication program policy paper for the record.

[Clerk's note.—The report appears on pages 801 through 835.]

TUBERCULOSIS

Mr. **Akaka**. What is the nature and extent of the bovine tuberculosis problem on the Island of Molokai?

Response. Bovine tuberculosis has been endemic on the island of Molokai, both among wild animals and in the cattle population, since at least 1941. Grazing herds are not confined on Molokai. It is not unusual for healthy and infected animals to intermingle. Given the long-term presence of the disease on the island and the intermingling between herds, the Agency believes that all cattle on Molokai should be considered as having been exposed to tuberculosis.

Mr. **Akaka**. How far has the condemnation and slaughter operation proceeded?

Response. As of March 8, 1986, 8,427 animals have been identified and their value appraised, and 4,700 have been sent to slaughter or off-island feedlots. We expect this operation to be completed by the middle of May 1986.

Mr. **Akaka**. Describe the relationship of the State of Hawaii and the Federal government in the Molokai eradication effort.

Response. The eradication effort is a State-Federal cooperative effort, with both sides contributing personnel and material support. However, the Federal government provides all of the indemnity costs, except for special supplementary payments by the State for the slaughter of certain high-value bulls.

Mr. **Akaka**. What is the status of the pending court proceeding to halt the condemnation of cattle on Molokai?

Response. Twenty-one plaintiffs, representing about 600 head of cattle—of a total of 8,500 animals on the island—claim that their animals have not been exposed to tuberculosis, and have gone to court to prevent their slaughter. The trail is scheduled to open on April 1, 1986.

Mr. AKAKA. Why do you believe it is necessary to undertake an islandwide condemnation to eradicate bovine tuberculosis on Molokai?

Response. All previous attempts to eradicate tuberculosis on Molokai through more limited measures, dating back to the 1941, have been unsuccessful. These failures are due to the unrestricted intermingling of healthy and infected herds and the prevalence of the disease among the island's wild swine and other wildlife. Given the inability to eradicate the disease through less drastic measures and the health risk to the human population, the Agency has decided that complete depopulation of all cattle is the only means to achieve the eradication of bovine tuberculosis on Molokai, and allow the establishment of new disease-free herds.

Mr. AKAKA. What has been the cost of the eradication program to date and what will be the total cost of the eradication effort on Molokai?

Response. To date, we have obligated $3,554,000 for the eradication effort—$3,150,000 in FY 1985 and $404,000 through March 31, 1986. We expect to obligate an additional $254,000 in FY 1986, for a total estimated eradication cost of $3,808,000.

Mr. AKAKA. What amounts have been indentified for the Molokai eradication effort in the FY 1986 budget?

Response. We estimate that total FY 1986 obligations will be $658,000. We have obligated $404,000 as of March 31, 1986.

Mr. AKAKA. In FY 1987?

Response. No funding is planned for FY 1987 since we expect to complete our eradication program by May 1986.

Mr. AKAKA. In the past 5 years there has been a 31 percent decrease in cattle prices in Hawaii. In light of this, the Hawaii Cattlemen's Association has asked that a program be developed to market condemned Molokai cattle outside of Hawaii. To what extent has this been considered by APHIS and what problems, if any, are anticipated?

Response. This was considered by APHIS. Some cattle dealers expressed interest in purchasing Molokai cattle for shipment to the mainland for feeding and slaughter. However, the cost of transportation proved to be prohibitive. As an alternative to immediate slaughter, we extended the time for slaughter from 15 days to 6 months and we are now in the process of amending the tuberculosis regulations to permit owners the option of selling exposed calves for feeding. Carcasses of exposed cattle from Molokai that pass Federal meat inspection can be marketed outside of Hawaii without restrictions.

ANIMAL DAMAGE CONTROL

Mr. AKAKA. What is the nature and extent of the rodents infestation of sugarcane and other Hawaii crops? Identify the history of infestation and the species of rodents present.

Response. Rodents cause significant agricultural losses to the State's sugarcane and macadamia nut industries. The black, Norway, and Polynesian rats are responsible for sugarcane losses which average about 4.5 percent of crop value in untreated plantations. In 1970, zinc phosphide bait was approved for rodent contol by the Environmental Protection Agency. Since that time, Hawaii's sugarcane growers have used the bait to reduce crop losses due to rodents by approximately 50 percent. For the macadamia nut industry, the black and Norway rats cause estimated crop losses of approximately 5 percent. Damage to individual orchards varies from year to year, and can reach as high as 20 percent of mature nuts harvested.

Mr. AKAKA. Describe the nature of the work undertaken in Hawaii by the Fish and Wildlife Service in past years to control rats and other rodents which infest sugarcane and other Hawaii crops.

Response. From 1968 to 1979, the Fish and Wildlife Service worked in partnership with the Hawaiian Sugarcane Planters Association to research method for controlling crop damage in Hawaii due to rodents. During that time, the Service and the Association identified the main depredating species, developed quantitative methods to assess rodent damage, and complied the necessary data to gain EPA approval of zinc phosphide bait as a rodenticide. The Service also worked with the Association to develop varieties of sugarcane with greater resistance to rodent damage.

Mr. AKAKA. To what extent will APHIS undertake a program of rat control for sugarcane and other Hawaii crops in FY 1986? In FY 1987? Identify all funds to be expended for such an intiative by activity and location.

Response. At present, ADC does not carry out program work in Hawaii. We are, however, thoroughly reevaluating program activities and are considering opening a State Animal Damage Control Office in Hawaii.

SHARWILL AVOCADO REGULATIONS

Mr. **Akaka**. What is the nature and status of the proposed regulations affecting Sharwill avocados? When is a final regulatory action expected?

Response. The proposed regulations would permit the introduction of the Sharwill avocado into the U.S. under strict conditions. Hearings were held earlier this year in Kona, Hawaii and Los Angeles, California, regarding the proposed regulations. We are in the process of evaluating the information gained from those hearings. A date for final regulatory action has not been set.

Mr. **Akaka**. What would be the economic benefit to Hawaii's Sharwill avocado growers if these regulations become effective as proposed?

Response. The adoption of these regulations would have a positive impact to its economy. It is difficult to predict the increased market value because, if the regulation is passed, there will be an increase from the 100 acres now used for the harvesting of the Sharwill avocado. Additionally, the avocado would probably bring a higher price on the U.S. mainland than in other markets, but the extent is uncertain.

Mr. **Akaka**. Described the research and test shipments that have been undertaken to provide the research background for the proposed regulatory action.

Response. Research was conducted by the Agricultural Research Service both in the laboratory and by field collection that showed: based on weekly samples collected in the field over several seasons, Sharwill avocados are not a host at harvest time; in caged studies, fruit fly eggs were found only if high populations of flies were forced to oviposit on fruits with detached stems in large screen cages with no other host; in field collections, trap data showed that fruit flies were present in avocado fields. Additional examination of 38,241 fruits—every harvested Sharwill avocado—in the 1984 harvest season showed that no fruit fly eggs were found.

Mr. **Akaka**. In your experience, has a research initiative of similar magnitude been undertaken for a regulatory action of this nature?

Response. Yes, there have been several research and methods development initiatives of this magnitude or larger undertaken in the past by the Agricultural Research Service and APHIS, including double-dip treatment for papaya, treatment of stone fruit from California for Mediterranean fruit fly, and cherries from Washington State for cherry fruit fly.

Mr. **Akaka**. In the event that the proposed regulations are not given final regulatory approval, what additional research will be needed to prove that the Sharwill variety with stems attached is not a host for fruit fly?

Response. At this time, no additional research is required. The Agricultural Research Service provided us with sufficient data to ascertain that the Sharwill avocado with stem attached is not a host of the trifly. Some questioning did arise over the fact that only 38,000 fruits were involved in the test instead of 100,000. However, it was pointed out that additional weekly samples were examined throughout the harvesting period over the last four years.

Mr. **Akaka**. Does APHIS consider this regulatory initiatives to be of high priority? If not, why not?

Response. Yes, this initiative does have a high priority; however, we do have other initiatives that have as high a priority for completion. We are aware of the importance of the regulation to the State of Hawaii and the avocado industry. There are 24 regulations which are currently pending within APHIS which we are attempting to expedite and at the same time assure that U.S. agriculture is protected against the introduction of pests and diseases.

AGRICULTURE QUARANTINE INSPECTION IN HAWAII

Mr. **Akaka**. Describe the nature and status of the proposed changes at Honolulu International Airport and neighbor island airports to use X-rays for predeparture clearance.

Response. We are in the process of purchasing 17 X-ray devices to complete the changeover to X-ray inspection for predeparture clearance in all of Hawaii. The program should be operational by the summer of 1986. The new system will ensure that all checked and hand baggage from Hawaii to the mainland will be examined by X-ray.

Mr. **Akaka**. What is the nature of low Z-ray detection equipment that is now under development?

Response. The low Z-ray detection equipment can produce an image of material with low molecular weight.

Mr. Akaka. What benefits are associated with this new technology over those now in use?

Response. This could prove to enhance our ability to find such items as fruits and vegetables in passenger baggage.

DISEASE PROGRAM PRIORITIES

Mrs. Smith. Which disease programs will you place the highest priority on in the coming years?

Response. We will place the highest priority on programs that allow us to carry out the most basic Federal functions of surveillance for pests and diseases, both at our borders and internally; enforcement of regulations which keep problems from spreading; and quick reaction to outbreaks of exotic threats that slip into our country. Specific animal health protection programs that perform these functions include animal disease detection, animal health compliance and enforcement, import-export inspection, international programs, veterinary biologics, and veterinary diagnostics. Plant protection programs in this category include agricultural quarantine inspection, pest detection, and international programs.

The specific disease or pest programs on which we will place the highest priority are those representing the greatest threat to the nation's agriculture as well as those in which we can make the most progress given the tools available. These include brucellosis, tuberculosis, screwworm, Mediterranean and Mexican fruit flies, and pest or disease emergencies which may arise such as the recent outbreaks of grasshopper, gypsy moth, citrus canker, and avian influenza.

GRASSHOPPER CONTROL

Mrs. Smith. Will you provide for the record the past 10 year history of the severity of grasshopper infestations and the amount of money that has been spent on programs to eradicate them? Please provide these figures specifically for Nebraska and other States.

[The information follows:]

GRASSHOPPER CONTROL PROGRAM - 1976-1985

STATE	1976 ACRES REQUIRING TREATMENT	1976 FEDERAL COSTS	1977 ACRES REQUIRING TREATMENT	1977 FEDERAL COSTS	1978 ACRES REQUIRING TREATMENT	1978 FEDERAL COSTS	1979 ACRES REQUIRING TREATMENT	1979 FEDERAL COSTS
Arizona	197,696	$624,889	106,272	$162,210	43,608	$78,110	164,030	$97,876
California	1,072	3,388	--	--	1,104	1,977	5,888	3,513
Colorado	4,700	14,856	83,578	127,570	118,359	212,002	129,466	77,252
Idaho	92,356	291,924	285,904	436,393	41,782	74,839	300,864	179,525
Montana	230,176	727,554	289,808	442,352	13,000	23,285	83,808	50,008
Nebraska	--	--	54,639	83,399	205,000	367,191	948,976	566,252
Nevada	4,320	13,655	--	--	180	322	40,704	24,288
New Mexico	75,992	240,200	--	--	23,000	41,197	746,736	445,576
North Dakota	36,188	114,385	123,396	188,347	--	--	20,736	12,373
Oklahoma	--	--	--	--	--	--	142,708	85,154
Oregon	--	--	--	--	--	--	1,464,920	874,115
South Dakota	--	--	195,228	297,989	19,584	35,078	950,598	567,220
Texas	--	--	--	--	201,000	360,026	1,487,883	887,817
Utah	17,884	56,529	6,048	9,231	--	--	19,756	11,788
Washington	4,410	13,939	17,160	26,192	4,400	7,881	330,224	197,044
Wyoming	188,114	594,602	150,379	229,533	150,000	268,676	276,855	165,199
Total	852,908	$2,695,921	1,312,412	$2,003,216	821,017	$1,470,584	7,114,152	$4,245,000

STATE	1980 ACRES REQUIRING TREATMENT	1980 FEDERAL COSTS	1981 ACRES REQUIRING TREATMENT	1981 FEDERAL COSTS	1982 ACRES REQUIRING TREATMENT	1982 FEDERAL COSTS	1983 ACRES REQUIRING TREATMENT	1983 FEDERAL COSTS
Arizona	423,000	$374,951	64,256	$83,014	--	--	--	--
California	--	--	1,584	2,046	--	--	--	--
Colorado	374,127	331,630	449,734	581,027	94,269	$88,320,507	--	--
Idaho	12,000	10,637	--	--	5,000	4,684,494	--	--
Montana	260,000	230,466	--	--	--	--	--	--
Nebraska	441,791	391,608	23,890	30,864	--	--	--	--
Nevada	--	--	11,792	15,234	--	--	--	--
New Mexico	1,436,047	1,272,925	269,860	348,642	--	--	--	--
North Dakota	114,320	101,334	320	413	--	--	--	--
Oklahoma	97,644	86,553	106,824	138,009	--	--	--	--
Oregon	514,000	455,614	25,664	33,156	--	--	--	--
South Dakota	--	--	--	--	--	--	--	--
Texas	1,037,305	919,477	37,436	48,365	467,847	438,325,262	--	--
Utah	--	--	5,416	6,997	12,553	11,760,890	--	--
Washington	--	--	--	--	--	--	--	--
Wyoming	505,190	447,805	261,029	337,233	37,260	34,908,847	--	--
Total	5,215,424	$4,623,000	1,257,805	$1,625,000	616,929	$578,000,000	--	--

STATE	1984 ACRES REQUIRING TREATMENT	1984 FEDERAL COSTS	1985 ACRES REQUIRING TREATMENT	1985 FEDERAL COSTS
Arizona	--	--	65,163	$144,682
California	--	--	--	--
Colorado	--	--	253,561	511,101
Idaho	184,648	$571,122	6,432,590	11,391,784
Montana	--	--	1,461,944	2,230,513
Nebraska	--	--	27,650	57,961
Nevada	--	--	--	--
New Mexico	--	--	--	--
North Dakota	--	--	650,558	842,217
Oklahoma	--	--	86,947	54,595
Oregon	--	--	494,950	757,853
South Dakota	--	--	89,598	74,407
Texas	--	--	45,872	29,339
Utah	31,968	98,878	1,339,573	3,072,179
Washington	--	--	16,304	12,939
Wyoming	--	--	2,954,016	2,275,206
Total	216,616	$670,000	13,918,726	$21,454,776

1/ - The data for 1976-1978 includes costs for control and surveillance activities.

Mrs. SMITH. What is the current potential of a grasshopper infestation for the coming year for the Great Plains States? Would you please provide a State by State breakdown for the record?

Response. Despite the availability of fall survey data, accurate estimates of grasshopper infestations for a given year are subject to variation due to the impact of spring weather conditions. With that caveat, based on a comparison of fall survey data from 1984 and 1985, States with a likelihood for larger infestations include Kansas, Colorado, Oklahoma, and South Dakota. States showing approximately the same potential for infestation include Nebraska, Kansas, and Wyoming. A smaller infestation is anticipated for Idaho. We would be pleased to provide a State-by-State breakdown for the record:

[The information follows:]

1986 ESTIMATE OF ACRES REQUIRING TREATMENT—FALL 1985 SURVEY

State	Land		Total acres
	Federal	State/Private	
Arizona	270,000	0	270,000
California	0	0	0
Colorado	245,000	255,000	500,000
Idaho	280,000	65,000	345,000
Kansas	10,000	0	10,000
Montana	445,000	120,000	565,000
Nebraska	100,000	300,000	400,000
Nevada	30,000	20,000	50,000
New Mexico	750,000	800,000	1,550,000
North Dakota	150,000	150,000	300,000
Oklahoma	0	150,000	150,000
Oregon	950,000	550,000	1,500,000
South Dakota	75,000	225,000	300,000
Texas	0	1,800,000	1,800,000
Utah	1,500,000	300,000	1,800,000
Washington	115,000	200,000	315,000
Wyoming	607,000	2,223,000	2,830,000
Total	5,527,000	7,158,000	12,685,000

Mrs. SMITH. What provisions has the agency made for cooperative spraying efforts between the Federal, State, and local government concerning these programs?

Response. APHIS is currently working within each State in preparation for this year's control program, the scope of which is not yet known. As in the past, the owner of infested land—be it Federal, State, or private—must initiate a request to APHIS for treatment before spraying operations can commence. Once again, APHIS will share costs on a 50-50 basis on State land, will assume one-third of costs for treatment of privately owned land, and pay the full cost of treating Federal land. An interagency agreement between USDA and the Department of the Interior is currently being finalized in order to implement a provision of the 1985 Farm Bill requiring that Interior reimburse APHIS for costs relating to the treatment of lands owned by the Bureau of Land Management.

Mrs. SMITH. You know, many farmers in Nebraska diligently spray for grasshopper control. However, not all federal land is sprayed. How are area farmers supposed to control this pest on their own if the Federal government refuses to pick up their fair share of this program?

Response. In the 1985 emergency grasshopper control program, the treatment criteria we followed precluded some areas. We treated acreage determined to be economically infested—those containing at least eight adults, or an equivalent number of immature grasshoppers per square yard. Also, the area had to consist of at least 10,000 acres or totally encompass an infestation. These requirements, designed to ensure that treatment blocks covered the greatest amount of infested rangeland and at the same time promote "flyability" and cost-efficiency, necessarily eliminated from consideration some farms adjacent to smaller blocks of Federal land. This was the case in Nebraska in 1985, where infested parcels were too small to meet our criteria.

Under the provisions of the Food Security Act of 1985, APHIS will be responsible this year and in the future for ensuring that land adjacent to Federal rangeland is protected from grasshoppers migrating from Federal land. We are currently developing treatment criteria to implement the new provision, which will be announced in the near future.

Mrs. SMITH. I have received information that states that the cost for this APHIS program was around $3.25 per acre as opposed to $2.05 by private applicator contracts. Would the Department care to comment on this? Is there any possibility of a program conducted through private applicators to lower costs to the government?

Response. The $3.25 figure to which you refer was a preliminary estimate of spraying costs for Nebraska based on historical data. I am pleased to report that our national program was accomplished in 1985 at a cost of slightly under $2.00 per acre. Use of private contractors to achieve cost savings was an important part of our program in 1985. The unusually large scope of the infestation resulted in economies of scale through treating larger blocks of acreage; also, competition among spraying contractors occurred on a scale not seen before, further contributing to cost savings. The fact that the Department of Defense did not charge APHIS for its services resulted in additional savings.

We consider a program where ranchers would contract privately for spraying, with subsequent Federal reimbursement, to be unacceptable, primarily due to APHIS' responsibility to ensure that spraying is conducted in such a manner so as not to harm the environment.

Mrs. SMITH. How often have outbreak estimates been accurate in the past?

Response. The major factor hindering the accuracy of outbreak estimates is spring weather conditions which, of course, no one can predict. In 1985 we predicted 9.5 million acres requiring treatment, and wound up treating 13 million. Other factors include the desire of ranchers to treat private lands, which varies depending on the market value of their animals and the cost of alternative feed.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Statement of B. W. Hawkins, Administrator, Animal and Plant Health Inspection Service, before the House Subcommittee on Agriculture, Rural Development, and Related Agencies.

Mr. Chairman, members of the Committee, it gives me great pleasure to again share with you the continuing record of accomplishment we have compiled in the Animal and Plant Health Inspection Service (APHIS). With your consistent support and cooperation from the States and industry, the men and women of APHIS have provided an outstanding and invaluable service--protecting the animal and plant resources that allow America to be the breadbasket of the world. Protecting American agriculture is our creed. Today, I will discuss our Fiscal Year (FY) 1987 budget, as well as report on our recent achievements. I have with me my Associate Administrator, Dr. James W. Glosser, who is appearing before the committee for the first time; our Deputy Administrators for Veterinary Services--Dr. John K. Atwell, for Plant Protection and Quarantine--Mr. Harvey L. Ford, for Animal Damage Control--Mr. James O. Lee, Jr., and for Management and Budget--Larry B. Slagle; and the Director of the Budget and Accounting Division--Mr. Samuel V. Ladd. They are prepared to provide any technical information you may need.

Reality of Budget Reduction

During my previous appearances before you I spoke of the challenge that faces APHIS and all Federal agencies, providing vital services while holding the line on spending. That challenge is now the law. Gramm-Rudman-Hollings makes the reality of deficit and budget reduction impossible to escape. Business as usual will not occur. If there was any doubt about that, it certainly was removed 3 days ago when over $13 million in FY 1986 APHIS funds were sequestered. For FY 1986, and the foreseeable future, the message is clear--we cannot do everything anymore.

Still, there is much we cannot afford not to do. Our most basic functions of surveillance for pests and diseases, both at our borders and internally; enforcement of regulations which keep problems from spreading; and quick reaction to outbreaks of exotic threats which slip into our country; must be maintained at full strength. Cutting the APHIS budget across-the-board unfortunately does not equally distribute the impact. Our basic functions, which provide the current high degree of agricultural health protection we enjoy, suffer disproportionately because we have no real choice but to reduce staffing from the levels needed to assure proper coverage. Consequently, across-the-board cuts reduce our ability to prevent pest and disease problems or at least deal with them at their earliest and least costly stage.

Our proposed FY 1987 budget recognizes that we can no longer try to do everything, but must maintain vital functions. Simply, the budget is our statement of priorities. We are requesting adequate funding to fully carry out the basic Federal role in agricultural health protection. At the same time, we are proposing to reduce or eliminate our participation in activities which do not clearly fall into the Federal sector. The budget faces the reality of deficit reduction.

Before going into specifics on the FY 1987 budget, I would like to take a few minutes to report to you on some outstanding successes we achieved in FY 1985, some new threats we have faced, and some continuing problem areas.

Program Achievements in FY 1985

One of our most difficult tasks last year was dealing with a massive grasshopper outbreak. We successfully accomplished that task. The grasshopper is a tough pest to deal with. Although we can make reasonable estimates of the potential for high populations, we do not know just how big a problem we have until the weather and season take their course and it is almost time to begin work. In 1985, Mother Nature was exceedingly kind to the grasshopper and left us with record highs in infested acreage. Compounding the problem was that Federal lands, where we bear 100 percent of program costs, were more severely infested than private and State lands, where we can share costs. Also, control operations have to coincide with the proper stage of grasshopper development, providing a narrow window of opportunity to achieve successful control. Given all of these problems, we treated nearly 14 million acres--twice as many as ever before--within about 2 months. This involved negotiating 87 different contracts for pesticides and aerial application in 13 States, working with States and ranchers, and supervising all program operations. I am proud of the way our people handled this extraordinary challenge, and I thank the Committee for its assistance in assuring our success.

Although not quite as dramatic, significant progress was made in the battle against brucellosis. Following the direction given by Congress last year, we reduced the brucellosis infection rate to .26 percent, down from .29 percent in FY 1984. There are now 43 States and possessions in either "Free" or "Class A" status, six more than in FY 1984. We are on the road to eradication and an eventual large savings in program costs if we maintain our plan for an orderly phasedown with continued strong efforts in high incidence States. The phasedown calls for having all States in Free or Class A status by FY 1991. We hope to achieve this by quickly making progress in the high incidence States, using depopulation of heavily infected herds in accordance with State by State eradication plans.

Two high visibility pest introductions were handled successfully in FY 1985. Working closely with Florida, we quickly eradicated another potentially costly Mediterranean fruit fly outbreak before it spread. Also, I am sure that we all are breathing a bit easier with the results of the Africanized bee program. We worked closely with California, conducting quarantine, surveillance, and laboratory activities to check the spread of this unique threat. Happily, it appears that the Africanized bees which did spread were absorbed into the native bee population and lost their aggressive, threatening nature.

Perhaps our biggest success story is the one we never hear too much about. I am referring to the hundreds of thousands of interceptions of unauthorized materials our port-of-entry inspectors make each year. Any of those materials, such as a ham from a foot-and-mouth disease affected country or an orange from a Medfly-infested country, could have spread pests and diseases throughout our agricultural marketing system. By combining modern techniques, such as X-ray machines, with an assist from man's best friend - beagles sniffing baggage for meats and other products - our inspectors saved countless millions in potential losses and control costs.

While our surveillance programs have continued to catch most major pests and diseases, we are concerned with the unusually high number of relatively minor outbreaks during the past few years. We have handled such problems as vesicular stomatitis, Oriental fruit fly, apple ermine moth, white garden snails, and black parlatoria scale before they could cause widespread damage. This reinforces the need to maintain our highest possible level of surveillance and enforcement.

The rapidly expanding field of biotechnology is a new challenge to APHIS. Using existing resources, we established a biotechnology and environmental assessment staff. Such a staff would be needed to regulate and facilitate the introduction of genetically engineered organisms into American agriculture.

Citrus Canker

Citrus canker continues to cause us great concern. We have now destroyed 18 million plants in an effort to eradicate the disease. Our most recent find was on December 30, 1985. As I reported last year, the disease has been unpredictable because it is a strain of citrus canker never before found in the United States. Fortunately, we have been successful in our most immediate goal of keeping citrus canker out of mature, fruit producing trees. However, eradication will not be assured until intensive surveillance fails to discover the disease for at least 2 years after the last find. We are hopeful that the work we have done so far will be followed by a State and industry program that will prove successful in finally achieving eradication.

FY 1987 Budget Analysis

Having looked at our recent activities, I would now like to turn to the FY 1987 budget. In preparing our budget, we conducted both an Agencywide and a program by program analysis. On an Agencywide basis, we determined that our most important priority was to preserve the highest possible level for our functions which support our basic mission. This includes fulfilling the necessary Federal roles of surveillance and enforcement and maintaining the capability to respond to emergencies. To do this, we have to maintain a staff of highly skilled and trained professionals available for emergency duty at a moment's notice. Also from an Agencywide perspective, we determined that we must achieve every possible administrative efficiency. Toward that goal, I commissioned an independent study of how we staff our programs to eliminate any unnecessary positions. We took a particularly hard look at all administrative positions. Some changes have already been made in accordance with the study's recommendations.

Looking at APHIS on a program by program basis, we categorized our activities in three general types. First were those activities which clearly required a strong or total Federal presence. These activities should receive our highest priority, and our funding request reflects that.

The second category included most of our traditional ongoing control and eradication programs. This category essentially is the discretionary part of the APHIS budget. For programs in this category, we attempted to match limited resources with the greatest need, taking into account the possibility of greater State or industry involvement and the national threat posed by each pest or disease.

The third category included those activities for which a clear beneficiary could be identified. In those cases, we would propose to continue performing services, but to recover the costs from the identified beneficiaries.

With that background, I would like to take a closer look at the specifics of the FY 1987 budget. Under current law, we are requesting $253,156,000 for our "Salaries and Expenses" appropriation and $2,347,000 for our "Building and Facilities" appropriation. This represents a decrease of $61,232,000 from the amount Congress appropriated and a $47,713,000 decrease from our FY 1986 funding after the Gramm-Rudman-Hollings sequestration. Also, we have proposed legislation to recover $20,856,000 in user fees, further reducing the level of Federal outlays.

Basic Functions

The program breakout of our total request closely follows the general framework I have described. For our basic function programs—agricultural quarantine inspection, international programs, pest detection, animal disease detection, and animal health compliance and enforcement—we are requesting the same operating level of funds as Congress provided in the original FY 1986 appropriation. Compared to funding now available in FY 1986, this is a $3,014,000 increase, restoring for FY 1987 about 90 percent of the funds sequestered in FY 1986 and allowing these vital programs to maintain an adequate level of agricultural protection. The other 10 percent will be absorbed through management initiatives, such as contracting certain services to the private sector. These programs are our top priorities and it is crucial that they not be reduced if we are to fulfill our mission.

Traditional Programs

The tough choices come in our second major category of programs, those where greater State and industry support is possible or continued Federal involvement is of lower priority. We are requesting a decrease of $50,805,000 from the FY 1986 funding now available for this category of programs, thus allowing the increase for our basic functions while still reducing overall spending. Although individual program situations may differ, there are a few general guidelines we applied in determining funding levels. For example, when a pest or disease is localized, under control, and State or industry action could be sufficient, we proposed to either eliminate or reduce Federal spending. This guideline was applied to the golden nematode, noxious weeds, pink bollworm, and witchweed programs.

A second guideline we used was to reduce funding to the extent program progress allowed. This meant maintaining a solid base to assure continued success, while still achieving some cost savings. Programs of this type include our two largest eradication programs, brucellosis and screwworm. In both cases we have had great success, but substantial funding is still necessary to maintain our current progress and move further ahead. A similar situation, although on a much smaller scale, exists in the boll weevil program.

A third guideline was to simply end APHIS funding for programs where Federal funding is of relatively low priority. In the cases of imported fire ant and pseudorabies, we believe that we have done just about all we are capable of doing. Any further program actions would require presently unavailable new technology to deal with fire ants or a greater threat than now exists due to pseudorabies. Also, we propose to eliminate funding for the animal welfare and horse protection programs. These activities do not compete well with the priorities of agricultural health protection given the reality of budget reduction.

The final reduction I would address is for grasshopper. Congressional action in the 1985 Farm Bill and the ability to carry over the funds made available for grasshopper control in FY 1986 precludes the need for new appropriations in FY 1987. Therefore, we propose no new funds for grasshopper control, although we are requesting funds for our surveillance and technical assistance activities.

User Fees

In our third major category of programs, those where user fees would be appropriate, we are proposing to recover $20,856,000 through the enactment of legislation to allow us to charge for certain services. This includes all of the activities conducted by the veterinary biologics and import-export programs, as well as certain functions in the agricultural quarantine inspection and veterinary diagnostics programs. We believe that we can identify clear beneficiaries of our services in all cases and thus establish fair and proper fees.

Mr. Chairman, I would like to summarize my remarks by saying that we recognize that budget reductions are necessary. Given that reality, we want to do whatever we can to continue our record of accomplishment in APHIS within available funding. To fulfill our mission, it is crucial that we make our decisions based on priorities. This budget was determined by setting our priorities - the basic APHIS functions. I understand that reducing spending for some of our traditional programs will be difficult. While we can provide technical leadership in all phases of agricultural health protection, others will have to do more. We stand ready to do our part.

That concludes my remarks. My colleagues and I look forward to working with you during the difficult times ahead. We would be glad to respond to any questions you may have.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Purpose Statement

The Animal and Plant Health Inspection Service (APHIS) was established by the Secretary of Agriculture on April 2, 1972, under the authority of the Reorganization Plan No. 2 of 1953 and other authorities. The primary mission of APHIS is to protect the animal and plant resources of the Nation from disease and pests in order to preserve the marketability of U.S. agricultural products within this country and abroad. The mission is carried out under three major areas of activity:

1. Animal and plant disease and pest control: The Agency conducts inspection and quarantine activities at U.S. ports-of-entry to prevent the introduction of exotic animal and plant diseases and pests; survey, diagnostic, and inspection activities in the United States to locate and prevent the spread of agricultural pests and diseases; control and eradication programs to combat new and endemic infestations and infections; and emergency eradication programs when devastating plant and animal diseases threaten the U.S. The Agency also participates in inspection, survey, and control activities in foreign countries to reinforce its domestic activities.

2. Animal damage control: The Agency carries out a cooperative program to reduce agricultural losses caused by predatory animals, birds, and rodents; conducts control operations for target species on Federal, State and private lands; provides technical assistance to other cooperators such as States, counties, or farmer or rancher groups; conducts basic and applied research aimed at reducing economic damage from vertebrate animals.

3. Other regulatory activities: The Agency performs other regulatory activities, including the development of standards for and licensing and testing of veterinary biologicals to ensure their safety and effectiveness; inspection of certain establishments which handle animals intended for research, exhibition, and pet purposes, to ensure their humane treatment; and regulation of the import and export of endangered species.

As of September 30, 1985, there were 4,269 permanent full-time and 933 part-time employees. Of the total, 666 full-time employees and 86 part-time employees work in central offices in the Washington metropolitan area. The field activities are managed on a national basis through 8 regional offices and 67 area offices. Much of the work is conducted in cooperation with State and local agencies, private groups, and foreign government. Most of the Service's work is conducted at field locations in the 50 States, Puerto Rico, Virgin Islands, Mexico, and Central America.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Available Funds and Staff-Years

1985 Actual and Estimated, 1986 and 1987

	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Salaries and Expenses	$298,557,000	4,600	$314,195,000	4,904	$253,156,000	4,647
Buildings and Facilities	2,361,000	--	4,236,000	--	2,347,000	--
Obligations under other USDA Appropriations						
Agricultural Cooperative Service for administrative support	142,000	3	143,800	3	113,000	3
Agricultural Marketing Service for administrative support	1,824,000	45	1,867,800	45	1,867,000	45
Agricultural Research for administrative support and cooperative projects	119,643	--	57,300	--	57,000	--
Commodity Credit Corporation for emergency programs	21,375,432	163	3,347,456	63	--	--
Citrus Canker	(12,002,544)	(158)	(3,347,456)	(63)	--	--
Grasshopper	(2,484,235)	(3)	(--)	(--)	--	--
Gypsy Moth	(5,541,556)	(2)	(--)	(--)	--	--
Avian Influenza	(1,347,097)	(--)	(--)	(--)	--	--
Cooperative State Research Service for Center for Tropical Health agreement	10,000	--	--	--	--	--
Federal Crop Insurance Corporation for employee detail	10,739	--	--	--	--	--
Federal Grain Inspection Service for administrative support and EDB residue inspection of grains	1,233,550	33	1,204,700	33	1,204,000	33
Food Safety and Inspection Service for administrative support and Center for Tropical Health agreement	25,000	--	11,800	--	12,000	--
Human Nutrition Information Service for administrative support	56,321	--	54,200	--	54,000	--
Office of Finance and Management for detail of employees	102,615	2	118,200	2	118,000	2

	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Office of Governmental and Public Affairs for employee detail..........	4,799	--	--	--	--	
Office of Inspector General for administrative support..................	19,103	--	23,300	--	23,000	--
Office of Transportation for administrative support..................	105,000	2	107,000	2	54,000	1
Packers and Stockyards Administration for administrative support...	229,000	6	231,000	6	231,000	6
Office of International Cooperation and Development for employee service, laboratory testing, equipment and training.................	628,235	14	650,000	14	750,000	--
Statistical Reporting Service for maintenance of data processing facilities...............	5,695	--	5,700	--	6,000	--
Total, Agricultural Appropriations............	326,809,132	4,868	326,253,256	5,072	259,992,000	4,737
Other Federal Funds:						
Customs Service for equipment purchase and Florida aerial photographic mission.....	37,000	--	40,000	--	--	--
Environmental Protection Agency for Florida aerial photographic mission.....	15,000	--	--	--	--	--
Forest Service for gypsy moth infestation in Oregon and supplies and equipment for other gypsy moth infestations..	767,548	--	17,000	--	17,000	--
Food and Drug Administration for Center for Tropical Health agreement................	10,000	--	--	--	--	--
National Institutes of Health for testing, equipment and supplies...	145,683	--	--	--	--	--
Miscellaneous Reimbursements...........	3,505	--	1,000	--	1,000	--
Total, Other Federal Funds.	978,736	--	58,000	--	18,000	--

	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Non-Federal Funds:						
Funds derived from importers and exporters for import-export inspection, laboratory testing control and eradication services, etc	9,978,990	145	8,860,680	143	10,993,000	197
Funds derived from States, local organizations and others for Inspection, certification, and quarantine of animal products	2,248	--	--	--	--	--
Feed and attendants for animals in quarantine	2,519,024	43	2,325,000	41	2,325,000	40
Miscellaneous Contributed Funds	2,311,176	36	2,410,000	36	2,410,000	36
Total, Non-Federal Funds	14,811,438	224	13,595,680	220	15,728,000	273
Total, Animal and Plant Health Inspection Service	342,599,306	5,092	339,906,936	5,292	275,738,000	5,010

Full-Time Equivalent Staff-Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	4,812	5,012	4,730
Non-Ceiling	280	280	280
Total	5,092	5,292	5,010

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Permanent Positions by Grade and Staff-Years Summary

1985 and Estimated 1986 and 1987

Grade	1985			1986			1987		
	Headquarters	Field	Total	Headquarters	Field	Total	Headquarters	Field	Total
ES-6	1	--	1	1	--	1	1	--	1
ES-5	1	--	1	1	--	1	1	--	1
ES-4	6	1	7	6	1	7	6	1	7
ES-3	5	4	9	6	4	10	6	4	10
ES-2	1	1	2	2	1	3	2	1	3
ES-1	--	2	2	--	2	2	--	2	2
GS-16	1	--	1	1	--	1	1	--	1
GS/GM-15	38	19	57	46	19	65	38	21	59
GS/GM-14	91	70	161	89	78	167	89	74	163
GS/GM-13	83	129	212	82	135	217	82	132	214
GS-12	72	468	540	71	497	568	71	481	552
GS-11	44	374	418	44	425	469	44	395	439
GS-9	62	904	966	61	1,003	1,064	61	945	1,006
GS-8	5	3	8	5	3	8	5	3	8
GS-7	52	655	707	51	706	757	51	677	728
GS-6	61	91	152	60	92	152	60	92	152
GS-5	78	427	505	76	447	523	76	436	512
GS-4	37	351	388	37	358	395	37	354	391
GS-3	22	81	103	22	96	118	22	87	109
GS-2	1	3	4	1	3	4	1	3	4
Other Graded Positions....	8	102	110	8	102	110	8	102	110
Ungraded Positions........	6	134	140	6	134	140	6	134	140
Total Permanent Positions.	675	3,819	4,494	676	4,106	4,782	668	3,944	4,612
Staff Years:									
Ceiling.................	703	4,109	4,812	703	4,309	5,012	695	4,035	4,730
Non-Ceiling.............	2	278	280	2	278	280	2	278	280
TOTAL................	705	4,387	5,092	705	4,587	5,292	697	4,313	5,010

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

		1985	1986	1987
Personnel Compensation:				
	Headquarters	$ 17,510,759	$ 16,561,000	$ 15,207,000
	Field	106,679,020	106,120,000	101,774,000
11	Total personnel compensation	124,189,779	122,681,000	116,981,000
12	Personnel benefits	18,130,622	20,148,000	17,983,000
13	Benefits for former personnel	364,168	462,000	5,037,000
	Total personnel compensation and benefits	142,684,569	143,291,000	140,001,000
Other Objects:				
21	Travel	8,624,514	9,716,000	6,112,000
22	Transportation of things	2,051,131	2,395,000	1,457,000
23.2	Rental payments to others	2,282,225	2,472,000	1,289,000
23.3	Communications, utilities and miscellaneous charges	10,071,609	12,744,000	8,849,000
24	Printing and reproduction	934,295	1,159,000	753,000
25	Other services	53,517,938	68,584,000	44,879,000
26	Supplies and materials	25,242,084	27,190,000	14,122,000
31	Equipment	15,350,180	11,301,000	5,168,000
32	Lands and structures	3,065,811	2,626,860	7,824,792
41	Grants, contributions, subsidies	24,277,698	25,624,000	22,268,000
42	Insurance claims and indemnities	12,400,962	9,719,000	8,258,000
	Total other objects	157,818,447	173,530,860	120,979,792
	Total direct obligations	300,503,016	316,821,860	260,980,792

Position Data:

	1985	1986	1987
Average Salary, ES positions	$ 66,814	$ 66,814	$ 66,814
Average Salary, GS positions	$ 25,015	$ 25,029	$ 25,007
Average Grade, GS positions	8.53	8.55	8.52

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The estimates include appropriation language for this item as follows (new language is underscored; deleted matter is enclosed in brackets):

Salaries and Expenses:

For expenses, not otherwise provided for, including those pursuant to
the Act of February 28, 1947, as amended (21 U.S.C. 114b-c), necessary to
prevent, control, and eradicate pests and plant and animal diseases; to
carry out inspection, quarantine, and regulatory activities; to discharge
1 the authorities of the Secretary of Agriculture under the Act of March 2,
1931 (46 Stat. 1468; 7 U.S.C. 426-426b); and to protect the environment, as
2 authorized by law, [$316,286,000] $253,156,000; of which [$3,000,000]
$2,982,000 shall be available for the control of outbreaks of insects,
plant diseases and animal diseases to the extent necessary to meet
3 emergency conditions: [Provided, That $1,000,000 of the funds for control
of the fire ant shall be placed in reserve for matching purposes with
States which may come into the program:] Provided [further], That no funds
shall be used to formulate or administer a brucellosis eradication program
for the current fiscal year that does not require minimum matching by the
States of at least 40 per centum: Provided further, That this
appropriation shall be available for field employment pursuant to the
second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C.
2225), and not to exceed $40,000 shall be available for employment under 5
U.S.C. 3109: Provided further, That this appropriation shall be available
for the operation and maintenance of aircraft and the purchase of not to
exceed two, of which one shall be for replacement only: Provided further,
That, in addition, in emergencies which threaten any segment of the
agricultural production industry of this country, the Secretary may
transfer from other appropriations or funds available to the agencies or
corporations of the Department such sums as he may deem necessary, to be
available only in such emergencies for the arrest and eradication of
contagious or infectious diseases or pests of animals, poultry, or plants,
and for expenses in accordance with the Act of February 28, 1947, as
amended, and section 102 of the Act of September 21, 1944, as amended, and
any unexpended balances of funds transferred for such emergency purposes in
the next preceding fiscal year shall be merged with such transferred
4 amounts[: Provided further, That effective upon the date of enactment of
this Act and notwithstanding any other provision of law, the authorities of
the Secretary of Agriculture under the Act of March 2, 1931 (46 Stat.
1468; 7 U.S.C. 426-426b), (transferred to the Secretary of Interior
pursuant to section 4(f) of 1939 Reorganization Plan No. II) and all
personnel, property, records, unexpended balances of appropriations,
allocations and other funds of the Fish and Wildlife Service, United States
Department of the Interior used, held, available or to be made available in
connection with the administration of such Act, are hereby transferred from
the Secretary of the Interior to the Secretary of Agriculture, and this
appropriation shall be available to carry out such authorities].

The first change in language permits the agency to conduct ongoing animal damage control activities as provided in the FY 1986 appropriation act.

The second change provides the FY 1987 amount for the contingency fund which represents the .06% reduction in the 1986 appropriation act.

The third change eliminates the language that places funds in reserve for an imported fire ant control matching program. The FY 1987 budget does not provide funds for an imported fire ant program.

The fourth change eliminates the language transferring animal damage control to APHIS. This transfer will be completed by Fiscal Year 1987. Only language providing ongoing authority for animal damage control will be needed. This is provided in the first change above.

SALARIES AND EXPENSES - CURRENT LAW

Appropriation Act, 1986	$316,286,000
Budget Estimate, 1987	253,156,000
Decrease in Appropriation	- 63,130,000

Adjustments in 1986:		
Appropriation Act, 1986	$316,286,000	
Less Pro-Rata Reduction, P.L. 99-190	- 1,898,000	
Net Appropriations	314,388,000	
Transfer to Departmental Administration and Office of Governmental and Public Affairs.a/	193,000	
Adjusted base for 1986		314,195,000
Budget Estimate, Current Law, 1987		253,156,000
Decrease over adjusted, 1986		- 61,039,000

SALARIES AND EXPENSES - PROPOSED LEGISLATION

Budget Estimate, Current Law, 1987	$253,156,000
Change due to proposed legislation	- 20,856,000
Net Request, President's 1987 Budget Request	232,300,000

SUMMARY OF DECREASES CURRENT LAW

Item of Change	1986 Estimated	Management Savings	Program Changes	1987 Estimated
Boll Weevil	$ 3,037,000	-$ 3,000	-$ 2,382,000	$ 652,000
Golden Nematode	1,000,000	- 3,000	- 100,000	897,000
Grasshopper/ Mormon Cricket	17,891,000	- 3,000	- 16,932,000	956,000
Imported Fire Ant	5,774,000	--	- 5,774,000	--
Noxious Weeds	784,000	--	- 784,000	--
Pink Bollworm	2,377,000	- 4,000	- 1,338,000	1,035,000
Witchweed	4,695,000	--	- 4,695,000	--
Brucellosis Eradication	69,731,000	- 216,000	- 6,515,000	63,000,000
Pseudorabies	2,308,000	--	- 2,308,000	--
Screwworm	33,008,000	- 109,000	- 4,503,000	28,396,000
Animal Welfare	4,836,000	--	- 4,836,000	--
Horse Protection	158,000	--	- 158,000	--
Animal Damage Control	19,880,000	--	- 9,880,000	10,000,000
All Other	148,716,000	- 496,000	--	148,220,000
Total Available	314,195,000	- 834,000	- 60,205,000	253,156,000

a/ A transfer of $146,000 to Departmental Administration and $47,000 to Office of Governmental and Public Affairs is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

PROJECT STATEMENT - Current Law
(On basis of appropriation)

PROJECT	1985 Actual		1986 Estimated		Increase or Decrease	1987 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
1. Plant disease and pest control:							
Agricultural quarantine inspection	$55,820,195	1,462	$54,555,000	1,462	-$ 188,000	$54,367,000	1,539
International programs	2,448,709	30	2,125,000	30	- 7,000	2,118,000	30
Pest detection	4,080,814	64	3,951,000	64	- 13,000	3,938,000	70
Plant protection programs:							
Biocontrol	3,248,458	68	3,287,000	68	- 11,000	3,276,000	78
Boll weevil	4,762,197	33	3,037,000	33	- 2,385,000	652,000	9
Golden nematode	1,036,144	27	1,000,000	27	- 103,000	897,000	27
Grasshopper & Mormon cricket	20,164,078	38	17,891,000	38	-16,935,000	956,000	38
Gypsy moth	5,645,379	121	5,142,000	121	- 17,000	5,125,000	121
Imported fire ant	2,973,723	22	5,774,000	22	- 5,774,000	--	--
Mediterranean fruit fly	8,768,657	123	8,541,000	123	- 29,000	8,512,000	128
Mexican fruit fly	3,026,658	73	1,517,000	73	- 5,000	1,512,000	81
Miscellaneous plant pests	831,553	14	1,135,000	14	- 4,000	1,131,000	14
Noxious weeds	681,940	5	784,000	5	- 784,000	--	--
Pink bollworm	2,161,796	34	2,377,000	34	- 1,342,000	1,035,000	34
Witchweed	5,004,083	74	4,695,000	74	- 4,695,000	--	--
Total, Plant disease and pest control	120,654,384	2,188	115,811,000	2,188	(1) -32,292,000	83,519,000	2,169
2. Animal disease and pest control:							
Animal disease detection	2,585,467	49	3,045,000	45	- 10,000	3,035,000	48
Animal health compliance and enforcement	14,341,995	351	13,905,000	343	- 47,000	13,858,000	356
Import-export inspection	8,031,776	215	8,475,000	204	- 29,000	8,446,000	218
International programs	1,727,599	22	2,022,000	22	- 7,000	2,015,000	23
Veterinary biologics	8,213,112	158	8,639,000	150	- 29,000	8,610,000	162
Veterinary diagnostics	12,055,426	161	10,964,000	153	- 37,000	10,927,000	165
Animal health programs:							
Brucellosis	68,651,431	827	69,731,000	798	- 6,731,000	63,000,000	851
Cattle ticks	6,398,881	127	6,200,000	121	- 21,000	6,179,000	130
Foot-and-mouth disease (Darien Gap)	2,094,395	11	2,223,000	10	- 8,000	2,215,000	12
Miscellaneous animal diseases	1,542,427	24	2,004,000	23	- 7,000	1,997,000	25
National poultry improvement plan	142,311	4	218,000	4	- 1,000	217,000	4
Poultry diseases	590,438	14	632,000	13	- 2,000	630,000	14
Pseudorabies	1,807,814	19	2,308,000	18	- 2,308,000	--	--
Screwworm	27,960,216	116	33,008,000	110	- 4,612,000	28,396,000	132
Swine health protection	3,091,358	73	3,236,000	69	- 11,000	3,225,000	74
Tuberculosis eradication	9,496,305	77	3,918,000	73	- 13,000	3,905,000	64
Animal welfare	6,214,438	156	4,836,000	152	- 4,836,000	--	--
Horse protection	331,084	8	158,000	8	- 158,000	--	--
Exotic Newcastle	506,348	--	--	--	--	--	--
Total, Animal disease and pest control	175,782,821	2,412	175,522,000	2,316	(2) -18,867,000	156,655,000	2,278

PROJECT	1985 Actual		1986 Estimated		Increase or Decrease	1987 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
3. Animal Damage Control[a]	--		19,880,000	400	(3) - 9,880,000	10,000,000	200
4. Contingencies:							
(a) Plant disease and pest control	850,000	--	1,491,000	--	--	1,491,000	--
(b) Animal disease and pest control	150,000	--	1,491,000	--	--	1,491,000	--
Total, Contingencies	1,000,000	--	2,982,000			2,982,000	--
Unobligated balance	926,795		--	--	--	--	--
Total, Available or estimated, appropriated funds	298,364,000	4,600	314,195,000	4,904	-61,039,000	253,156,000	4,647
5. Advances and Reimbursements:							
(a) Plant disease and pest control:							
Citrus canker	12,002,544	158	3,347,456	63	- 3,347,456	--	--
Grasshopper	2,484,235	3	--	--	--	--	--
Gypsy Moth	5,541,556	2	--	--	--	--	--
Other	12,033,733	189	10,357,337	189	+ 1,642,663	12,000,000	229
Total	32,062,068	352	13,704,793	252	- 1,704,793	12,000,000	229
(b) Animal disease and pest control:							
Avian influenza	1,347,097	--	--		--	--	--
Other	3,439,693	61	3,036,143	59	+ 463,857	3,500,000	58
Total	4,786,790	61	3,036,143	59	+ 463,857	3,500,000	58
Total, Advances and reimbursements	36,848,858	413	16,740,936	311	- 1,240,936	15,500,000	287
Total, Available or estimated	335,212,858	5,013	330,935,936	5,215	-62,279,936	268,656,000	4,934
Transfer to Departmental Administration and Office of Governmental and Public Affairs	+ 193,000	--	+ 193,000	--	- 193,000	--	--
Receipts from Advances and reimbursements	-36,848,858	- 413	-16,740,936	- 311	+ 1,240,936	-15,500,000	- 287
Total, Appropriation	298,557,000	4,600	314,388,000	4,904	-61,232,000	253,156,000	4,647

[a] 1985 data not yet available from the Department of Interior.

EXPLANATION OF PROGRAM

The appropriation "Salaries and Expenses" for the Animal and Plant Health Inspection Service (APHIS) funds the following activities:

1. Plant disease and pest control--In cooperation with the States, APHIS carries out surveys to detect harmful pests and diseases, inspections to prevent spread of plant pests to noninfested areas of the country, and programs to eradicate new or established plant pests and diseases. An inspection program at ports of entry prevents the introduction of foreign plant and animal pests and diseases which are harmful to agriculture in the United States. APHIS also certifies plants and plant products for export and regulates imports and exports of designated endangered plant species.

The statutory authority supporting this program is contained in 7 U.S.C. 7-7b, 8, 11, 15, 17, and 55; and 49 U.S.C. 20. The principal legislative authority for these activities is the Organic Act of 1944, as amended by P.L. 94-231, enacted March 15, 1976. The authority to control noxious weeds was enacted under P.L. 92-629, dated January 3, 1975. The Department's enforcement responsibilities for endangered plants are contained in the Endangered Species Act of 1973. The Airport and Airways Development Act, P.L. 94-353, Section 15 (c), was enacted July 12, 1976.

The levels of plant disease and pest control activities are shown by the selected examples that follow:

	1985 Actual	1986 Estimate	1987 Estimate
Acres treated (thousands):			
Boll weevil (High Plains)	120	300	300
Boll weevil (eradication)	500	270	--
Grasshopper	13,800	10,200	--
Gypsy moth	275.4	250	125
Imported fire ant	--	700	--
Sterile insects released (millions):			
Mexican fruit fly	431.8	260	260
Pink bollworm (adult moths)	395	395	--
Mediterranean fruit fly (Mexico and Central America)	14,560	14,560	14,560
Parasites released (thousands):			
Colorado Potato Beetle	400	400	500
Alfalfa weevil	2,100	375	--
Citrus whitefly	100	50	--
Diffuse spotted knapweed	10	50	100
Total acres released from quarantine through eradication:			
Witchweed	59,699	35,000	--
Environmental monitoring and methods development:			
Imported fire ant:			
Sites monitored	4	6	--
Tests plots conducted	42	50	--
Alternate chemicals/materials screened	12	18	--
Plant Health Emergencies:			
Africanized Bee:			
Feral nests sampled	356	165	150
Apiaries sampled	197	100	200
Colonies sampled	17,187	4,550	500
Citrus Canker:			
Plants destroyed	11,548,044	7,000,000	1,000,000
Survey inspections	2,062,755	2,790,800	2,000,000
Plant samples taken	8,000	9,000	10,000
Regulatory visits	35,000	35,000	35,000
Control visits	484	100	40

	1985 Actual	1986 Estimate	1987 Estimate
Plant Health Emergencies: (Cont.)			
Medfly (Florida):			
Traps placed....................	5,083	--	--
Regulatory visits...............	5,524	--	--
Sterile flies released (mil.)...	269.4	--	--

The level of activity for agricultural quarantine inspection is as follows:

Plant and animal product and byproduct inspection:			
Airplanes (thousands)...............	252	255	258
Vessels (thousands).................	40	39	38
Plant units processed (millions)....	221	224	227
Cargo inspections conducted (thousands).......................	505	500	497
Phytosanitary export certification:			
Certificates issued (thousands)...	126	128	130
Interceptions (thousands):			
Unauthorized plant material.......	1,260	1,265	1,280
Unauthorized animal products/ byproducts......................	120	122	124
Unauthorized material:			
Mail................................	10	12	15
Baggage.............................	727	732	738

2. Animal disease and pest control--APHIS conducts programs to prevent communicable diseases of foreign origin from entering the United States; rapidly diagnose foreign animal diseases, should they enter this country; and prevent the spread of diseases through interstate shipments of livestock or distribution of impure, unsafe, impotent, and nonefficacious veterinary biologics. In cooperation with States, the Agency conducts other programs to control and eradicate livestock diseases present in this country including new outbreaks of economic significance for which the Secretary of Agriculture declares a national emergency. The animal welfare program is designed to ensure humane care and handling of approximately 40 million warmblooded animals and restricts animal fighting ventures. The horse protection program is concerned with the practice of soring horses so as to affect their gait.

The statutory authority for this work is contained in 7 U.S.C. 15, 17, 30, 54, 429, and 3801; 15 U.S.C. 44; 19 U.S.C. 4; 21 U.S.C. 4, 5, and 45; 46 U.S.C. 15; and 49 U.S.C. 20. Principal legislative authority for these activities is contained in the Act of May 29, 1884; Act of August 30, 1890; Act of February 2, 1903; Act of March 3, 1905; Tariff Act of June 17, 1930; Act of September 21, 1944; Act of February 28, 1947; Act of September 6, 1961; Act of July 2, 1962; The Animal Welfare Act; The Horse Protection Act; The Virus-Serum-Toxin Act of March 14, 1913; the Swine Health Protection Act of October 17, 1980; and Public Law 97-46 of September 25, 1981; Act of October 14, 1982; and Act of January 13, 1983.

The levels of activity for the major animal disease and pest control programs are as follows:

	1985 Actual	1986 Estimate	1987 Estimate
Animal Disease Detection:			
Domestic disease--NADDS (State in pilot project)........	6	10	20
Exotic diseases and parasites:			
Investigation of suspicious cases...	480*	220	250
Confirmed primary outbreaks:			
Exotic Newcastle disease (VVND).....	7	10	10
Bovine babesiosis (PR)..............	40	30	20

Animal Health Compliance and Enforcement:			
Inspections conducted at livestock markets and other concentration points	19,711	26,919	26,919
Inspections conducted at slaughter establishments	6,414	8,724	8,724
Cattle identified for disease surveillance (millions)	19.9	22.4	22.4
Import Inspection:			
Animals (thousands)	2,062	2,100	1,950
Personally owned pet birds	2,200	2,500	3,000
Commercial birds (thousands)	575	600	700
Poultry (baby chicks & poults) (thousands)	6,000	6,000	7,000
Poultry hatching eggs (millions)	10,000	10,000	10,000
Export Inspection:			
Cattle, swine, sheep, goats, and horses	377,675	535,000	500,000
Chickens (millions)	29,872	30,000	30,000
Dozens of hatching eggs (millions)	13,535	13,500	13,500
International Programs:			
Number of vesicular disease investigations in Mexico and Central American countries	377	380	385
Veterinary Biologics:			
Number of serials processed	9,050	10,000	10,000
Percent of serials tested for:			
Potency	25.87	25	25
Purity	13.78	13	13
Sterility	12.52	15	15
Safety	.80	1	1
Chemistry	.75	1	1
Number of inspections:			
Indepth	14	20	30
Follow-up	8	15	18
Special	16	17	17
Veterinary Diagnostics:			
Number of import-export tests conducted at NVSL	114,000	114,000	114,000
Number of import-export tests conducted at FAADL	15,000	15,000	20,000
Number of diagnostic tests conducted at NVSL	195,000	145,000	145,000
Number of differential diagnostic tests conducted at NVSL	52,000	50,000	50,000
Number of bird quarantine tests conducted at NVSL	35,000	40,000	40,000
Number of reagent shipments	2,446,000	2,500,000	2,500,000

Brucellosis:			
Cattle:			
Market cattle identification reactor rate (%)	.26	.25	.24
Class free status States	23	25	29
Class A status States	20	21	18
Class B status States	6	5	4
Class B & C status States	2	1	1
Class C status States	2	1	1
Total number of infected herds found during year	6,982	6,284	5,656
Swine:			
Percentage of eligible slaughter swine sampled	39	41	43
States with zero infection	27	29	31
Cattle Ticks:			
Infested premises under treatment outside of quarantine zone at end of FY--Texas	3	9	9
Infested premises under treatment inside quarantine zone at end of FY--Texas	7	12	12
Premises freed of ticks--Puerto Rico	8,018	9,500	9,500
Foot-and-Mouth Disease (Darien Gap):			
Number of vesicular disease investigations in Panama and Colombia	88	100	115
Miscellaneous Animal Diseases:			
Scrapie:			
Number of infected flocks found	27	30	30
Number of exposed flocks under surveillance	250	300	300
National Poultry Improvement Plan:			
Number of States classified as U.S. Pullorum Typhoid Clean	30	33	34
Number of egg and meat-type breeding flocks in Plan	3,090	3,000	3,000
Number of water fowl, exhibition poultry and game bird breeding flocks in Plan	1,908	2,300	2,500
Number of States classified as U.S. Mycoplasma Gallisepticum Clean (turkey)	7	10	11
Pseudorabies:			
Pilot projects in Iowa, Illinois, Wisconsin, North Carolina and Pennsylvania			
Number of slaughter serum samples collected	81,452	95,000	0
Number of herds tested	931	700	0
Number of herds found infected	130	65	0

Screwworm:			
Cases in the United States..........	0	0	0
Cases in Mexican States bordering the United States.................	140	1	0
Sterile fly production--Tuxtla, Gutierrez, Mexico (millions weekly).........................	300	300	300
Swine Health Protection:			
Number of garbage inspections.....	55,209	65,000	65,000
Tuberculosis:			
States accredited free.............	26	28	30
Herds located......................	30	20	15
Herds depopulated (per year)........	18	18	14
Animal Welfare:			
Complaints investigated and resolved.........................	879	900	0
Number of inspections conducted at licenses and/or registrants....	18,213	17,500	0
Number of inspections conducted at air terminals..................	4,027	3,000	0
Number of violations processed......	371	225	0
Horse Protection:			
Staff days and/or nights of inspecting or monitoring horse shows and sales..................	711	400	0

* 413 investigations were due to the Vesicular stomatitis outbreak in the fourth quarter.

JUSTIFICATION OF DECREASES

(1) A decrease of $32,292,000 for plant disease and pest control activities, consisting of:

(a) A decrease of $287,000 for savings to be achieved through implementation of OMB Circular A-76 guidelines, intended to promote the contracting out of services currently performed in-house where viable and more economical to the Government.

(b) A decrease of $2,382,000 for the boll weevil program ($3,037,000 available in FY 1986).

Need for Change. Originally scheduled to be completed in FY 1985, the North Carolina-South Carolina eradication program required more time to be completed than anticipated, and is now expected to end in FY 1986. Program plans call for the affected States to assume responsibility for follow-up surveillance and quarantine activities during FY 1987.

In the Texas High Plains control program, APHIS has traditionally paid 50 percent of program costs. The Federal share is excessive in comparison with recent eradication programs in the Southeast and Southwest in which APHIS contributes 30 percent of program costs. The State and cotton industry are capable of assuming a greater degree of program responsibility.

California, Arizona, and Mexico initiated a boll weevil eradication program in FY 1985. APHIS has provided technical assistance and a share of program costs. Plans call for program completion in FY 1986. The States and Mexico possess the ability to carry out follow-up surveillance and quarantine activities.

Nature of Change. APHIS will continue to provide pesticides and technical assistance to Texas and the industry in connection with the High Plains program but will contribute 30 percent of program costs instead of the current 50 percent, with the remainder to be borne by cottongrowers. The Department will not provide funds for the Southeast or Southwest eradication programs. The previously proposed Federal boll weevil quarantine for these areas will not be implemented.

(c) A decrease of $100,000 for the golden nematode program ($1,000,000 available in FY 1986).

Need for Change. Efforts to control golden nematode through the combined use of fumigants, resistant potato varieties, sanitation practices, and regulatory actions have succeeded in restricting the pest to several counties in New York. Consequently, research to develop new technologies is no longer a Federal priority. In addition, the State is capable of assuming a greater role in program operation and support for research.

Nature of Change. APHIS will continue to participate at reduced levels in survey, regulatory, and methods development activities to combat golden nematode. However, Federal funding for the cooperative research program at Cornell University will be eliminated.

(d) A decrease of $16,932,000 for the grasshopper program ($17,891,000 available in FY 1986).

Need for Change. The Department, States, and ranchers have worked cooperatively since 1952 in a program designed to control grasshopper levels on rangeland. In addition to providing technical advice and survey support, APHIS has conducted control activities on a cost-sharing basis during years of heavy infestations as was the case in FY 1985. Congressional action in the 1985 Farm Bill and the ability to carry over the funds made available for grasshopper control in FY 1986 preclude the need for additional control funds in FY 1987.

Nature of Change. APHIS will continue to conduct surveys and provide technical assistance at a reduced level. Additional control funds are not being requested.

(e) A decrease of $5,774,000 to eliminate the imported fire ant program ($5,774,000 available in FY 1986).

Need for Change. APHIS participates with States in a program to prevent the artificial long-distance spread of imported fire ant, and has worked with private industry and the Agricultural Research Service in the development of effective, environmentally safe control tools. Some funding is also made available to States to partially subsidize purchases of chemicals for individual use. None of the chemicals currently available and approved for use is considered appropriate for wide-scale use. Accordingly, it should be the responsibility of the States and not the Federal government to provide control tools for use by individuals. In addition, the States possess the ability and experience to assume responsibility for the conduct of regulatory activities to prevent interstate spread of the pest.

Nature of Change. States, communities, local organizations, and individuals will be encouraged to use available tools to combat imported fire ant infestations at the State and local level. APHIS involvement will be eliminated.

(f) A decrease of $784,000 to eliminate the noxious weeds program ($784,000 available in FY 1986).

Need for Change. APHIS has funded cooperative programs with the States to control and eradicate common crupina in Idaho, hydrilla in Florida and California, goatsrue in Utah, Orobanche ramosa in Texas, and Salsola vermiculata in California. As a result of successful trial projects, the States possess the ability to effectively undertake localized eradication programs.

Nature of Change. The States will assume responsibility for all control and eradication activities under the noxious weeds program. Agricultural quarantine inspection activities at international airports should be adequate to prevent the entry of noxious weeds into the U.S.

(g) A decrease of $1,338,000 for the pink bollworm program ($2,377,000 available in FY 1986).

Need for Change. The current program to combat pink bollworm includes operation of a sterile moth-rearing facility at Phoenix, Arizona, participation in a cost-sharing program in the San Joaquin Valley of California, and participation in survey and regulatory activities. Experience gained by the States in the conduct of survey operations and in the cooperative program in the San Joaquin Valley have equipped them to assume full responsibility for these program elements.

Nature of Change. APHIS will relinquish its surveillance role and its assistance in the cooperative program in the San Joaquin Valley. The Agency will continue to operate the sterile moth rearing facility and participate in regulatory activities.

(h) A decrease of $4,695,000 to eliminate the witchweed program ($4,695,000 available in FY 1986).

Need for Change. APHIS, in cooperation with State, local, and industry groups, conducts regulatory and eradication activities to control witchweed in North Carolina and South Carolina. Program activities have been effective in preventing pest spread to corn-producing States while eradicating the weed in several counties in the Carolinas. Since the beginning of the program approximately 281,000 acres have been released from quarantine regulations, including 60,000 in FY 1985. As the States have substantial experience in effectively controlling the pest, APHIS believes it can safely eliminate its program role.

Nature of Change. APHIS will discontinue all regulatory and eradication activities to control witchweed in North Carolina and South Carolina. The States, local governments, and industry will be responsible for assuming all program activities.

(2) A decrease of $18,867,000 for animal disease and pest control activities, consisting of:

(a) A decrease of $547,000 for savings to be achieved through implementation of OMB Circular A-76 guidelines, intended to promote the contracting out of services currently performed in-house where viable and more economical to the Government.

(b) A decrease of $6,515,000 for the brucellosis eradication program ($69,731,000 available in FY 1986).

Need for Change. Since 1960, the State-Federal Cooperative Brucellosis Eradication Program has reduced the incidence of this disease from 1.2% to the current level of 0.26%, a 79% decrease. Nearly 90% of the remaining infection is concentrated in the States of Arkansas, Florida, Louisiana, Mississippi and Texas. By the end of FY 1986, we expect that only 7 States will have Class B or C status - all other States will be in Free or Class A status. Because of the low level of infection and economic losses, Federal funding for the program can be reduced and progress can continue.

Nature of Change. The FY 1987 Budget continues the phasedown, begun in FY 1986, of the Brucellosis eradication program. The objective of the program is, with increased State and industry involvement, to bring all States to Class A status or better in 5 years. The program will focus on States with the highest level of infection and work to prevent the reintroduction of brucellosis into Free and low incidence States. Beginning in FY 1991, the Federal program will consist of disease surveillance and reporting and enforcement of interstate regulations.

(c) A decrease of $2,308,000 to eliminate the pseudorabies program ($2,308,000 available in FY 1986).

Need for Change. APHIS will complete the pseudorabies pilot projects in FY 1986. Several States have already shown the ability to develop their own pseudorabies eradication projects. The Agency is committed to a policy of increasing the Federal role in surveillance, enforcement, and exotic disease and pest control. Given fiscal constraints and the need to expand its role in these areas, the Department must reduce its efforts to eradicate certain indigenous diseases of comparatively minor economic impact.

Nature of Change. APHIS will discontinue all pseudorabies eradication activities. It will discontinue its role in the cooperative State pilot projects.

(d) A decrease of $4,503,000 for the screwworm program ($33,008,000 available in FY 1986).

Need for Change. The goal of the screwworm eradication program in Mexico has been to eradicate the pest down to longitude 93° at the Isthmus of Tehuantepec and establish a barrier zone in that area to prevent reinfestation of the freed areas to the north and west. The program has achieved this goal, and funding can be reduced to a level sufficient to maintain the biological barrier.

Nature of Change. At this funding level, the rearing facility will produce sterile flies at a level sufficient to maintain the barrier at the Isthmus of Tehuantepec and eradicate any isolated outbreaks to the north and west of the barrier. The current program should provide full protection to the United States against screwworm outbreaks.

(e) A decrease of $4,836,000 to eliminate the animal welfare program ($4,836,000 available in FY 1986).

Need for Change. States, industry, and humane groups are expected to take responsibility for the humane treatment of laboratory, exhibition, and pet animals. Given current fiscal constraints, APHIS must concentrate limited resources in areas which will protect agriculture from pests and diseases. Consequently, APHIS proposes to eliminate the animal welfare program.

Nature of Change. APHIS will discontinue all inspections of licensed dealers, research facilities, exhibitors, and carriers. There will be no Federal investigations of complaints or alleged violations and cooperative efforts with other government agencies will cease.

(f) A decrease of $158,000 to eliminate the horse protection program ($158,000 available in FY 1986).

Need for Change. States, industry, and humane groups are expected to take responsibility for prevention of the soring of horses. The horse show industry already has a self-regulating program in place. Given current fiscal constraints, APHIS must concentrate limited resources in areas which will protect agriculture from pests and diseases. Consequently, APHIS proposes to eliminate the horse protection program.

Nature of Change. APHIS will cease its activities in monitoring the treatment of horses at shows, exhibitions, and sales.

(3) A decrease of $9,880,000 for Animal Damage Control ($19,880,000 available in FY 1986):

Need for Change. The animal damage control program has been carried out cooperatively with other Federal agencies, States, private organizations and individuals since 1931. These groups have developed a significant level of expertise over the years in controlling predator losses. In addition, damage caused by predatory animals is generally a localized problem which varies from region to region in the U.S. Since program cooperators have the experience to carry out this program and losses are localized, the Federal role should be reduced.

Nature of Change. Federal funding for the program will be reduced by about 50 percent; this will affect both the research and operational aspects of the program. APHIS will first allocate funds to programs that prevent agricultural losses due to vertebrate depredation (mammals and birds) since this was the intent of Congress when it passed the Animal Damage Control Act in 1931. The Agency will allocate any remaining funds to nonagricultural animal damage control programs such as bird control at airports.

Animal and Plant Health Inspection Service

Proposed for later transmittal; Proposed legislation.

SUMMARY OF INCREASES AND DECREASES - PROPOSED LEGISLATION

Item of Change	1987 Current Law	Program Changes	President's Request
Agricultural quarantine inspection	$54,367,000	-$1,800,000	$52,567,000
Import-export inspection	8,446,000	-8,446,000	--
Veterinary biologics	8,610,000	-8,610,000	--
Veterinary diagnostics	10,927,000	-2,000,000	8,927,000
All other	170,806,000	--	170,806,000
	$253,156,000	$20,856,000	$232,300,000

Explanation of Proposed Legislation

When direct beneficiaries can be identified, users of APHIS services should pay for the costs of the service. The Agency proposes to charge for the following services now provided free of charge by APHIS.

- In the agricultural quarantine inspection program, the cost of issuing phytosanitary certificates for plants offered for export.
- In the import-export inspection program, all costs associated with the import of animals and animal products. This includes the cost of inspection services at all import facilities, including Canadian border stations.
- In the veterinary biologics program, all costs associated with Agency efforts to prevent the production and distribution of worthless, contaminated, dangerous, or harmful veterinary biologics.
- In the veterinary diagnostics program, certain laboratory testing and reagent production performed for States, industry, universities, and other Federal agencies.

Legislation will be proposed to assess charges to the users of these services so that the cost of these programs will be borne by the program beneficiaries.

Plant Disease and Pest Control
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS
1985 and Estimated 1986 and 1987

	FY 1985		FY 1986		FY 1987	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Alabama..........	$ 642,415	14	$ 642,000	14	$ 167,000	10
Alaska...........	189,784	5	190,000	5	190,000	5
Arizona..........	1,760,866	52	1,703,000	52	1,163,000	51
Arkansas.........	358,329	15	357,000	15	211,000	15
California.......	8,801,891	187	8,290,000	187	7,215,000	195
Colorado.........	1,457,830	5	1,378,000	5	390,000	5
Connecticut......	455,217	6	455,000	6	455,000	6
Delaware.........	130,461	5	130,000	5	130,000	5
Florida..........	6,989,710	172	6,203,000	172	5,747,000	176
Georgia..........	886,827	23	886,000	23	567,000	18
Hawaii...........	5,557,914	152	5,558,000	152	5,558,000	164
Idaho............	8,691,442	14	7,833,000	14	647,000	13
Illinois.........	1,280,090	26	1,279,000	26	1,279,000	27
Indiana..........	181,740	4	181,000	4	181,000	5
Iowa.............	98,880	3	98,000	3	98,000	3
Kansas...........	113,793	3	111,000	3	111,000	3
Kentucky.........	87,628	3	87,000	3	87,000	3
Louisiana........	1,286,284	29	1,267,000	29	918,000	29
Maine............	195,504	6	195,000	6	195,000	6
Maryland.........	12,219,722	266	12,289,000	266	9,892,000	271
Massachusetts....	1,680,229	22	1,673,000	22	1,673,000	23
Michigan.........	1,127,196	33	1,126,000	33	1,126,000	34
Minnesota........	1,833,057	76	1,817,000	76	1,590,000	77
Mississippi......	2,618,901	58	2,607,000	58	786,000	53
Missouri.........	445,377	10	445,000	10	436,000	10
Montana..........	2,086,122	6	1,882,000	6	176,000	8
Nebraska.........	85,573	5	81,000	5	17,000	5
Nevada...........	48,431	3	45,000	3	20,000	3
New Hampshire....	97,858	3	97,000	3	97,000	3
New Jersey.......	2,468,255	49	2,467,000	49	2,467,000	51
New Mexico.......	193,923	5	180,000	5	124,000	5
New York.........	6,863,865	165	6,863,000	165	6,863,000	179
North Carolina...	3,963,217	73	4,582,000	73	369,000	9
North Dakota.....	894,036	3	806,000	3	69,000	3
Ohio.............	422,384	12	421,000	12	421,000	12
Oklahoma.........	286,792	5	272,000	5	125,000	5
Oregon...........	839,802	6	773,000	6	218,000	6
Pennsylvania.....	1,396,554	38	1,395,000	38	1,395,000	39
Rhode Island.....	73,305	3	73,000	3	73,000	3
South Carolina...	3,457,652	40	1,791,000	40	424,000	13
South Dakota.....	148,012	3	135,000	3	25,000	3
Tennessee........	282,198	8	281,000	8	241,000	8
Texas............	13,109,616	267	12,274,000	267	10,229,000	288
Utah.............	1,907,318	9	1,720,000	9	154,000	9
Vermont..........	79,592	5	79,000	5	79,000	5
Virginia.........	653,168	18	653,000	18	653,000	19
Washington.......	1,044,444	24	1,032,000	24	930,000	26
West Virginia....	119,805	5	119,000	5	119,000	5
Wisconsin........	110,551	5	110,000	5	110,000	5
Wyoming..........	3,937,069	5	3,547,000	5	293,000	5
Wash., DC........	2,306,203	62	2,300,000	62	1,984,000	63
Puerto Rico......	4,211,358	117	4,197,000	117	4,197,000	122
Virgin Islands...	294,500	8	295,000	8	295,000	8
Asia & Pacific...	1,561	5	2,000	5	2,000	5
Bahamas..........	437	0	0	0	0	0
Bermuda..........	17,349	6	17,000	6	17,000	6
Chile............	173,604	4	174,000	4	174,000	4
Dominican Rep....	370,473	5	370,000	5	370,000	5
Europe & Africa..	1,403	5	1,000	5	1,000	5
Guam.............	37,417	2	37,000	2	37,000	2
Guatemala........	2,785,776	5	2,786,000	5	2,786,000	5
Mexico...........	7,150,580	13	6,661,000	13	6,661,000	18
Peru.............	493,094	2	493,000	2	492,000	2
Total, Available or Estimate	121,504,384	2,188	115,811,000	2,188	83,519,000	2,169

Animal Disease and Pest Control
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS
1985 and Estimated 1986 and 1987

	FY 1985		FY 1986		FY 1987	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Alabama..........	$3,301,482	36	$3,323,000	34	$3,043,000	33
Alaska...........	67,205	1	66,000	1	57,000	1
Arizona..........	1,008,167	21	955,000	20	883,000	20
Arkansas.........	4,737,898	71	4,800,000	71	4,320,000	70
California.......	4,197,753	72	4,144,000	68	3,620,000	66
Colorado.........	4,995,861	77	4,729,000	74	4,251,000	73
Connecticut......	138,715	3	127,000	2	98,000	2
Delaware.........	66,334	1	63,000	1	57,000	1
Florida..........	10,933,310	130	10,744,000	122	9,725,000	120
Georgia..........	2,470,483	38	2,446,000	37	2,209,000	36
Hawaii...........	3,448,271	11	1,625,000	11	1,602,000	11
Idaho............	1,125,208	20	1,097,000	19	1,009,000	19
Illinois.........	1,490,734	25	1,512,000	25	1,019,000	24
Indiana..........	963,092	18	967,000	18	817,000	17
Iowa.............	15,913,894	282	15,626,000	276	14,742,000	274
Kansas...........	2,068,881	32	1,732,000	24	1,369,000	23
Kentucky.........	3,598,352	44	3,619,000	44	3,303,000	43
Louisiana........	2,850,142	37	2,859,000	37	2,598,000	36
Maine............	337,421	5	332,000	5	302,000	4
Maryland.........	18,739,668	325	18,614,000	320	16,653,000	316
Massachusetts....	685,728	16	646,000	15	409,000	15
Michigan.........	758,656	14	730,000	14	601,000	13
Minnesota........	2,652,492	79	2,683,000	79	2,274,000	78
Mississippi......	4,062,288	48	4,100,000	48	3,730,000	47
Missouri.........	2,918,088	41	2,827,000	38	2,345,000	37
Montana..........	475,530	13	468,000	12	438,000	12
Nebraska.........	1,574,674	24	1,519,000	22	1,285,000	22
Nevada...........	1,057,216	18	1,036,000	17	900,000	17
New Hampshire....	127,277	3	120,000	3	102,000	3
New Jersey.......	415,179	8	382,000	8	278,000	7
New Mexico.......	1,472,000	24	1,179,000	19	1,099,000	19
New York.........	6,150,058	103	5,709,000	99	5,410,000	98
North Carolina...	1,785,448	22	1,292,000	20	946,000	20
North Dakota.....	609,184	14	563,000	13	517,000	13
Ohio.............	1,097,846	14	1,078,000	13	715,000	13
Oklahoma.........	4,465,130	56	4,488,000	56	3,951,000	55
Oregon...........	663,904	9	647,000	9	535,000	9
Pennsylvania.....	1,071,228	29	1,040,000	28	678,000	27
Rhode Island.....	82,127	1	75,000	1	63,000	1
South Carolina...	797,836	18	771,000	17	691,000	17
South Dakota.....	1,188,194	20	1,139,000	19	1,017,000	19
Tennessee........	3,171,157	48	3,088,000	45	2,761,000	44
Texas............	16,864,525	234	16,360,000	221	15,186,000	219
Utah.............	557,646	9	552,000	9	511,000	9
Vermont..........	254,906	4	226,000	4	205,000	4
Virginia.........	1,212,125	19	851,000	11	775,000	11
Washington.......	673,796	37	674,000	37	608,000	36
West Virginia....	547,645	9	539,000	9	486,000	8
Wisconsin........	1,103,474	21	1,096,000	20	793,000	19
Wyoming..........	270,962	10	261,000	10	229,000	9
Wash., DC........	2,467,875	68	2,498,000	68	2,224,000	68
Puerto Rico......	4,587,974	72	4,447,000	68	4,390,000	66
Asia & Pacific...	114,503	1	152,000	1	152,000	1
Central America..	270,312	3	270,000	3	270,000	3
Colombia.........	1,190,097	1	1,356,000	1	1,352,000	1
Dominican Rep....	67,688	1	131,000	1	131,000	1
Europe & Africa..	113,369	1	150,000	1	150,000	1
Haiti............	74,346	0	0	0	0	0
Mexico...........	25,080,596	49	30,148,000	46	25,923,000	45
Panama...........	746,871	2	851,000	2	848,000	2
Total, Available or Estimate	175,932,821	2,412	175,522,000	2,316	156,655,000	2,278

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

SALARIES AND EXPENSES

STATUS OF PROGRAM

The Animal and Plant Health Inspection Service (APHIS) was established on April 2, 1972, pursuant to the authority of the Reorganization Plan No. 2 of 1953.

APHIS conducts cooperative programs with State and local agencies and organizations to control, eradicate, and prevent the movement of plant and animal diseases and pests. Inspection and regulatory programs prevent the introduction into the United States of pests and diseases of foreign origin and the spread of those pests within the country. Under the Federal Noxious Weed Act of 1974, the Agency carries out survey, regulatory, and control actions to protect American agriculture from the invasion and interstate spread of noxious weeds. APHIS, under the Endangered Species Act, regulates the import and export of designated endangered plant species and ensures that cooperative Federal-State pest control programs which utilize pesticides will not adversely affect endangered species. Under the Virus-Serum-Toxin-Act, activities are carried out to prevent the production and interstate distribution of worthless, contaminated, dangerous, or harmful veterinary biologics. Under authority of the Animal Welfare Act, the Agency conducts activities to ensure that certain animals intended for use in research or for exhibition purposes are provided with humane care and treatment, to assure humane treatment of animals during transportation in commerce, and to prevent the sale and use of animals which have been stolen. APHIS, under authority of the Horse Protection Act, works to prevent the interstate movement or exhibition of horses which have been "sored." Under the Swine Health Protection Act, the Agency conducts a Federal-State program to control the feeding of raw garbage to swine.

PLANT DISEASE AND PEST CONTROL

Current Activities: APHIS conducts an inspection program at all ports-of-entry to prevent the entry of insects, nematodes, plant and animal diseases, and other pests which are harmful to American agriculture. The Agency, through phytosanitary inspection, certifies plants and plant products for export. APHIS is also responsible for the import/export provision of the Endangered Species Act, the Convention on International Trade in Endangered Species, and Title III, Federal Seed Act.

The Agency cooperates with State and local agencies, industry groups, the Republic of Mexico, Canada, other Western Hemisphere countries, and other countries of the world. Surveys are conducted to detect harmful pests and diseases. Regulatory efforts are designed to prevent interstate spread of those pests and diseases. Cooperative control and eradication programs, using both chemical and biological techniques, are carried out to reduce or eliminate harmful infestations. APHIS carefully monitors the effects of its use of pesticide on the environment.

Selected Examples of Recent Progress:

1. Agricultural Quarantine Inspection

During FY 1985, over 30 million passengers were inspected at international airports. Passenger baggage inspection resulted in confiscation of over a million lots of prohibited fruits, vegetables, meat, and meat products.

The U.S. Customs Service expansion of accelerated passenger inspection systems at all major international airports continues to have an impact on APHIS. Because these systems focus on questioning passengers in primary inspection, APHIS has increased its role in followup screening and secondary baggage examination to maintain adequate agricultural protection. In addition, the

Agency has provided formal passenger profile training to all Plant Protection and Quarantine and Customs officers. APHIS is expanding its use of detector dog teams as a means to better utilize its workforce at airports with accelerated passenger inspection systems. Four detector dog teams are currently in use at the San Francisco, Los Angeles, Kennedy, and Houston International Airports. The addition of 12 more dog teams is planned for FY 1986.

Because of the success in detecting prohibited agricultural items in baggage, APHIS has established the use of X-rays at predeparture clearance sites in Puerto Rico. Honolulu currently uses X-rays for handbags but has plans to use X-rays for all baggage inspection by the spring of 1986. The use of X-rays has increased interceptions significantly without an increase in staffing.

APHIS now has authority to assess civil penalties for violations of agricultural quarantine inspection regulations. The amount of the penalty varies depending on the nature of the violation. Passengers determined to have purposely hidden restricted items in their baggage pay a somewhat higher penalty than those guilty only of non-compliance with regulations. During FY 1985, APHIS collected $429,939 on 15,055 passenger baggage violations.

During FY 1985, APHIS continued its efforts in ship inspection to prevent the introduction and spread of diseases and pests. The Agency inspected approximately 15,000 ships and conducted 210,000 regular and container cargo inspections. As a result of this maritime inspection system, approximately $20,000 in fines has been collected for 149 civil penalties.

APHIS works with the port authorities to expedite movement of ship cargoes. The agency is continuing to develop a network for communicating timely information to ports concerning ship cargoes posing the greatest threat of introducing exotic pests. Key words alert computers when agricultural holds should go into effect. Brokers in major ports are in turn notified as to agricultural holds on their cargoes. APHIS is also monitoring development and testing of new Customs accelerated cargo clearance and document processing procedures to ensure that the changes do not lower the current level of agricultural protection.

Development of a satisfactory treatment alternative for ethylene dibromide (EDB) continues. A double-dip system -- combining fruit selection based on degree of ripeness and a two-stage hot water immersion -- has been used commercially in Hawaii with papaya for over one year now. In addition, the Food and Drug Administration is expected to approve the use of irradiation as an alternative treatment technique.

During the last few years there has been an alarming increase in the number of exotic pest introductions into the U.S. which require eradication efforts. In an effort to determine causes of the increase and recommend measures to prevent or reduce future introductions, APHIS convened a Blue Ribbon Panel of experts to review the Department's foreign pest exclusion operations. The panel finished its report in August 1985, concluding that one of the major problems involving foreign pest exclusion stems from the public's lack of information and understanding about the importance of U.S. agricultural resources. The panel strongly recommends that APHIS accelerate and expand its information campaign. Increasing public awareness would do much to prevent the introduction of foreign pests as well as lessen their impact should they occur. At present, APHIS is reviewing these recommendations with respect to their effectiveness, cost, and impact on other Agency programs.

2. International Programs

International Programs serves as a first line of defense for American agriculture, providing preclearance of plant material destined for the U.S. and gathering information about pest conditions in foreign countries. International Programs accomplishes this through its three regions in Latin America, Europe and Africa, and Asia and the Pacific. The Latin America Region has area offices in Mexico, Guatemala, Chile, Peru, and the Dominican Republic. The Europe/Africa Region area offices are located in the Netherlands. The Asia/Pacific Region area offices are in the Philippines, Japan, Australia, and India. Additional personnel in other field offices are involved in pest suppression or eradication programs in Western Hemisphere countries.

During FY 1985, APHIS personnel precleared foreign agricultural products destined for the U.S. from many countries. Most preclearance activities were paid for by foreign exporters or U.S. importers. Another major activity is the exchange and dissemination of plant pest information with foreign counterparts throughout the world. APHIS obtains clarification of foreign plant quarantine requirements as they apply to U.S. agricultural exports; exchanges technical information with foreign counterparts; and, through agencies such as the U.S. Agency for International Development (USAID), provides direct assistance to lesser developed countries. Additionally, the Agency works with other international organizations such as the North American Plant Protection Organization and the Food and Agriculture Organization of the United Nations to promote plant health.

APHIS insures that U.S. agricultural products adhere to importing countries' standards by negotiating entry status on the basis of biological pest risk, such as Florida grapefruit entering Japan based on treatment for Caribbean fruit fly; encouraging foreign quarantine officials to accept new certification procedures for U.S. exports; directly intervening to expedite the entry of landed (or scheduled landing of) commodities when proper certification is not present; and monitoring the condition of U.S. commodities upon arrival in foreign countries to maintain the quality and acceptability of U.S. certification.

3. Pest Detection

The Pest Detection Program is a cooperative effort to certify the pest condition of export commodities, increase productivity, reduce pest control costs by early detection and control of new pests, and provide information on endemic pests to improve pest management decision-making. This is accomplished by the Cooperative National Plant Pest Survey and Detection Program, a nationwide computer-based information system designed to enable State departments of agriculture, universities, private industry, farmers, and other parties interested in plant health to rapidly retrieve information on a wide variety of plant pests. APHIS coordinates the program, channels funds, and establishes guidelines to standardize data collection and reporting techniques.

In FY 1985, APHIS had cooperative agreements for pest detection activities with all 50 States. The program continues to expand computer input and output capabilities, and over 6,000 pests and crops are encoded into the computer system. In FY 1985, APHIS converted the crop and pest codes to the format used by the Environmental Protection Agency and other agencies. With this new system information can now be readily exchanged and biological information is incorporated into the code.

In FY 1985, APHIS also initiated the development of a new data base management system (DBMS) which will be implemented in FY 1986. The DBMS will move from the Ft. Collins Computer Center in Colorado to a private time-sharing facility in McLean, Virginia, where the National Pesticide Information Retrieval System

(NPIRS) is located. The program will benefit from the move because the computer equipment and software has greater capability and is easier to use. Also the database can be made available to the public and efficiencies will be realized from sharing software with NPIRS.

The Pest Detection Program conducts surveys for specific plant pests to quickly identify areas of new infestations and to plan appropriate control and eradication measures. APHIS and State cooperators conducted special surveys during FY 1985 to detect and identify the limits of infestations for khapra beetle, corn cyst nematode, citrus canker, karnal bunt, larch canker, Africanized honey bee, Mexican fruit fly, melon fruit fly, and honey bee tracheal mite.

APHIS began work on a special exotic pheromone trapping project to detect 13 exotic species such as the false codeling moth, European cherry fruit fly, and light brown apple moth. As part of the project, APHIS provided services to cooperating States such as trapping guidelines, identification aids, and reference specimens. The project has been successful and to date none of the 13 exotic species have been found.

4. Plant Protection

Plant protection includes the cooperative control and eradication programs. These projects are carried out, using both chemical and biological techniques, to reduce or eliminate harmful infestations. APHIS maintains a cadre of trained personnel who can respond to emergencies and who work in plant protection when there are no emergencies. The plant protection programs are those from which personnel are primarily drawn during emergencies.

Biological Control

The Department works with the States and the research community to suppress a wide variety of plant pests through the use of beneficial organisms. Biological control projects include the alfalfa weevil, citrus whitefly, Colorado potato beetle, diffuse and spotted knapweed, and silverleaf nightshade. Projects are selected in which beneficial organisms exhibit substantial pest control and are then implemented for eventual acquisition by the States. Field utilization of biological control organisms are optimized through mass production, distribution, and evaluation. As a result, agricultural producers and the public benefit from expanded use of environmentally safe pest control methods.

Alfalfa Weevil

The alfalfa weevil is the most important alfalfa pest and costs farmers throughout the United States approximately $500 million per year. Five different species of parasites have been effective in controlling this pest. During FY 1985, project personnel released 2.1 million parasites in 31 States at 504 sites. An evaluation study was conducted to determine the location and effectiveness of parasites. The study found the parasite established for the first time in 121 counties in eleven States and that parasites are increasing in the East and are spreading westward. In the northeastern United States, farmers have saved over $9 million annually in damage and control costs.

Citrus Whitefly

The citrus whitefly attacks citrus and ornamentals primarily in the Southeastern States. Parasites released previously are now recovering from record cold weather in 1983 and 1984. In FY 1985, the citrus whitefly parasites were evaluated for establishment at 615 sites in eight States in the Southeast. Survey results indicate establishment of the parasite at 45 new sites in 29 counties in seven States. Results also indicate that parasites are beginning to disperse from their initial release site into surrounding infested areas.

Colorado Potato Beetle

The Colorado potato beetle attacks potatoes, tomatoes, and eggplant throughout the United States. Over the past few years, this pest has developed increasing resistance to pesticides especially in the northeastern States. In FY 1985, APHIS reared over 400,000 Colorado potato beetle egg parasites at the Mission, Texas Biological Control Laboratory and shipped them to cooperators in the Northeast for release and evaluation studies.

Diffuse and Spotted Knapweed

Diffuse and spotted knapweed infests pasture and rangeland causing major grazing loss to ranchers in the Northwest. Researchers in Canada and Montana have demonstrated that seed head flies are effective in significantly reducing diffuse and spotted knapweed seed production and can be used as a long term aid in controlling this weed's population. Releases of the seed head fly began last May at various sites in western Montana. Cooperators and Agency personnel released 104 bundles at 24 sites in four counties. The program will expand to the remainder of Montana and surrounding States within the next two years.

Silverleaf Nightshade

Silverleaf nightshade is an economically important perennial weed infesting cotton and other crops in the Southwestern U.S. The pilot project continues in Texas to test the use of a gall-forming nematode against this pest. A cooperative effort with Texas A&M is on-going to determine production and distribution techniques. The goal is to demonstrate the nematode's suitability as an augmentative biological control agent.

Boll Weevil

High Plains Program

The goal of the High Plains program, a cooperative APHIS-grower effort, is to prevent the spread of boll weevil to noninfested cotton-producing areas of West Texas. Diapause treatments generally span fiscal years, beginning in mid-September and continuing into November. In FY 1985, 120,250 aggregate acres were treated, compared to 409,376 in FY 1984. This indicated a decline in boll weevil populations through the early part of FY 1985. Late in FY 1985, as conditions favorable to cotton production became more in evidence, this downward trend reversed with populations beginning to increase by the end of the fiscal year.

Eradication Program

Current boll weevil eradication programs are cooperative efforts where operations are managed and coordinated by Federal personnel and 30 percent of program costs are assumed by the Department. The remaining 70 percent is paid for by growers.

Operations in North Carolina began in FY 1983. This program was originally projected to be a three-year undertaking, with a buffer zone to be established at the Georgia-South Carolina border at program conclusion. As a result of several mild winters which aided weevil overwintering, additional treatments have proven necessary and the original timetable has been extended. It now appears that spot treatments of some areas will be necessary in FY 1986 to complete eradication and set up the containment area. Fall diapause treatments for the 1984 crop season were completed from September to November. The 1985 crop season included 232,000 acres of cotton. Of this total, only 1,711 acres in the eradication area required treatment because of exposure to weevils. The first evidence of weevil infestation was detected in July, and by the end of September, 215 fields were under treatment.

The Department initiated operations in October 1984 in an area including southern California, western Arizona, and northern Mexico. Of the 214,444 acres of cotton in the program, approximately 100,000 acres required treatment in the spring. As of the end of September, spring and mid-season treatments had contained weevil populations to approximately 15,000 acres.

Golden Nematode

The golden nematode currently infests six counties in New York -- two on Long Island and four in upstate New York. A cooperative APHIS-State effort involving extensive use of golden nematode resistant varieties and intensified regulatory and sanitation actions has prevented the pest from spreading to other potato producing areas.

In 1985, approximately 70 percent of previously infested acreage was planted with resistant varieties or nonhost crops compared to 65 percent in 1984. APHIS continued to work with the Agricultural Research Service (ARS), the Extension Service, Cornell University, and the New York Seed Improvement Cooperative to accelerate the development of new resistant potato varieties and to promote the propagation and use of existing resistant varieties. The thrust of this effort combined with the use of resistant varieties under the new program direction should help to increase the development and use of quality resistant seed potatoes in 1986. Approximately 300 acres of newly infested land were planted with resistant varieties to suppress residual populations. Equipment used on this land is being subjected to an intensive regulatory monitoring and treatment program by APHIS and New York personnel.

Fingerprinting through the use of protein electrophoresis was used at Cornell University for the first time in 1985 to verify the use of resistant varieties on infested land as required by New York State law.

Grasshopper

Grasshoppers annually infest rangeland in several western States. During heavy infestations the pest also attacks cropland, causing extensive damage to alfalfa, wheat, beans, and other crops. APHIS works with States, providing survey support and technical assistance to limit population buildups and prevent migration from rangeland to cropland.

Based on Fall 1984 survey results, high populations were predicted for FY 1985, and control on approximately 9.5 million acres was anticipated. In the President's budget for FY 1985, funding for control activities was to be provided entirely by the States, local governments, and ranchers, with APHIS providing technical assistance. However, due to the severity of infestations on Federally owned rangeland and the consequent threat to private rangeland and cropland, an emergency was declared in mid-June 1985 enabling the transfer of funds from the Commodity Credit Corporation to deal with the situation.

Altogether, treatments were conducted on approximately 14 million acres in 13 States. APHIS assumed the total cost of treatments on Federal rangeland, one-half of the funding on State-owned rangeland, and one-third of treatment costs on privately-owned rangeland. Approximately $22 million was obligated during FY 1985 to cover APHIS' share of treatment costs.

The following table shows acreage treated during FY 1985.

Acreage Treated - FY 1985
(thousands)

State	Total	Federal	State/Private
Arizona	65	65	0
Colorado	254	199	55
Idaho	6,432	5,530	902
Montana	1,473	1,221	252
Nebraska	28	28	0
North Dakota	651	369	282
Oklahoma	87	0	87
Oregon	495	365	130
South Dakota	90	12	78
Texas	46	0	46
Utah	1,306	1,018	288
Washington	16	0	16
Wyoming	2,899	450	2,449
Total	13,842	9,257	4,585

Gypsy Moth

APHIS works with the States in regulatory, survey, and control activities to eradicate isolated gypsy moth infestations and prevent spread of the pest from the generally infested Northeast.

Cooperative survey and trapping outside the generally infested area in FY 1985 indicates few new areas of concern and shows significant reductions of serious infestations in Lane County, Oregon, and Johnson County, Tennessee. No adult moths were trapped inside the approximately 42,000 acre treatment block in Johnson County and only 1,186 moths were trapped in Lane County as opposed to over 19,000 last season. An aggregate 681,653 acres had been treated in Lane County prior to the trapping season. The eradication project in Lane County was made possible by emergency funding from the Commodity Credit Corporation. Nationally, 275,400 acres were treated for eradication purposes in the States of California, Oregon, Washington, Minnesota, Wisconsin, Illinois, Indiana, Ohio, North Carolina, and Tennessee.

APHIS regulates the movement of nursery stock, logs, fire wood, mobile homes, and outdoor household articles (OHA) from the Northeast. The OHA regulations, implemented in October 1983, are designed to limit gypsy moth spread through inspections of OHA moving from infested to non-infested areas. Studies indicate that OHA are a major cause of artificial spread of this pest. The Agency is proposing to modify this regulation to increase its effectiveness.

Testing continued on new eradication techniques against the gypsy moth. Development of a more effective pheromone has resulted in greater accuracy in trapping surveys. Use of Bacillus thuringiensis (Bt) reduced the use of chemical pesticides in spraying operations. Release of sterile males and altered egg masses continues to show promise.

During FY 1985, gypsy moth defoliation nearly doubled that of the previous year, indicating populations are likely cycling upward again. The following table shows acreage defoliated in recent years.

State	1982	1983	1984	1985
Connecticut	803,802	153,239	544	89,544
Delaware	1,265	2,992	14,203	5,144
Maine	574,537	16,285	1,892	6,698
Maryland	9,162	15,870	41,824	83,488
Massachusetts	1,383,265	148,133	185,520	414,084
Michigan	92	457	6,425	18,460
New Hampshire	878,273	560	0	0
New Jersey	675,985	340,285	98,695	239,350
New York	825,629	290,843	33,678	129,820
Pennsylvania	2,351,317	1,360,824	444,900	581,113
Rhode Island	658,000	53,880	164,600	133,920
Vermont	9,864	0	0	0
Virginia	0	0	374	5,200
West Virginia	0	0	0	2,400
Total	8,171,191	2,383,368	992,655	1,709,221

Mediterranean Fruit Fly

The objective of the Mediterranean fruit fly (Medfly) program is to prevent sustained infestations in the continental United States, Virgin Islands, and Puerto Rico through an effective trapping program and to prevent sustained infestations from occurring north of the 16° latitude in Mexico and El Peten, Guatemala.

APHIS conducts a cooperative trapping program with the States of Arizona, California, Florida, Louisiana, and Texas for early detection of Medfly infestations. One adult male Medfly was trapped in February 1985, in Miami, Florida. In April, two adult males were recovered in the same trap approximately 4 miles from the February find. APHIS intensified detection activities and initiated an eradication program using the sterile insect release method. Prior to the first aerial release of sterile flies, three weekly aerial applications of malathion bait spray were made to reduce the infestation. Approximately 271.7 million sterilized Medflies were released between May and July. Eradication was declared on August 27, 1985.

The Agency cooperates with Mexico and Guatemala in a Medfly control effort. Program activities include survey, quarantine, and control with sterile flies and limited application of insecticides. Over 14.5 billion flies were released in FY 1985 in Southern Mexico and Guatemala as compared to the 18.6 billion in FY 1984. The mass rearing facility at Metapa, Chiapas, Mexico, produced an average of one billion sterile flies weekly between July and September 1985. Modifications to the Guatemala facility apparently resolved the problems that led to the February production collapse and the average rate of production since mid-August has climbed to 100 million. The number of steriles produced at each facility is expected to increase through FY 1986. This will enable the program to release an increased number of sterile flies and expand the release area. Adult Medfly detections in Mexico totaled 33 in FY 1985, as compared to 231 in FY 1984, and 1,538 in FY 1983.

In their report on the FY 1985 appropriations bill, the Senate Appropriations Committee directed APHIS to examine the feasibility of moving the Medfly barrier farther south. An APHIS study team, assembled for this purpose, concluded that eradication of the Mediterranean fruit fly from Central America and Panama is technically and operationally feasible. Eradication would lower the possibility of entry and establishment of the pest in the United States, the Caribbean, and other noninfested areas of the world. The report also included, as directed, information on the regulatory steps the program is taking to prevent reinfestation north of the barrier. The full report of the study team was submitted to the Congress in May 1985.

Mexican Fruit Fly

Mexican fruit fly (Mexfly) infestations occur annually in the lower Rio Grande Valley of Texas. APHIS conducts survey, regulatory, and control activities to prevent pest spread to other citrus growing areas in Mexico and the United States.

The severe freeze in December of 1983 affected the Valley's Mexfly population and provided the program with an alternative approach to control the pest. The reduction offered an opportunity to further suppress the population through a modification in the release program. Subsequently, the area receiving sterile fly releases was increased to encompass the entire lower Rio Grande Valley. Accordingly, the number of flies released increased from 189.2 million in FY 1984 to 431.83 million in FY 1985.

Since the new rearing facility at Mission, Texas, is scheduled to begin operation during the second quarter of FY 1986, the facility at Monterrey, Mexico, will be closed by June 1986. The current rearing operations at Mission, Texas, will be dedicated to rearing for methods development projects and maintaining a California financed colony. The State of California, through a cooperative agreement, maintains a colony of flies for sterile fly production during outbreaks.

One adult Mexfly was recovered in February 1985, in San Ysidro (San Diego County), California. The trap density was increased, but no additional flies were recovered.

Noxious Weeds

APHIS cooperates with States and local agencies to detect and minimize the impact of newly found weeds or weeds not widely established throughout the United States. Program operations include detection at ports of entry and eradication of certain weeds already present in the United States.

Crupina

Common crupina presently infests rangeland in Idaho. It causes major grazing loss to ranchers because cattle do not find the plant palatable and it competes with other forage plants. APHIS and Idaho cooperators are continuing an eradication trial of common crupina at Orofino, at Five Mile Creek, Idaho, which is 10 to 16 miles north of the generally infested area. Fall and spring herbicide treatments were applied to areas of isolated infestations. In FY 1984, the eradication trial was successful in eliminating all common crupina plants and new seed production. In FY 1985, a few scattered infestations of common crupina produced seed in an area of less than six acres. These infestations occurred in difficult to travel and hard to detect sites and were treated with herbicide in the fall of 1985.

Goatsrue

Goatsrue is a perennial weed found in Utah and, as with common crupina, it is not palatable, mildly toxic to livestock, and competes with the usual forage plants. In FY 1985, the goatsrue eradication project included, for the first time, the entire 39,000 acres of infested land in the Cache Valley of Cache County, Utah. Over the past four years, one-quarter of the infested area has been added to the program each year. This was the first year that goatsrue did not mature to produce seeds over the entire infested area, attributable to making herbicidal treatments over the entire area.

Hydrilla

Hydrilla is an aquatic plant that causes major losses to water systems throughout the U.S. During the past four years, studies have been conducted to determine the most effective type of grass carp to control hydrilla, i.e., regular grass carp, surgically sterilized, hybrid, or triploid grass carp. By 1985, the triploid showed the greatest promise and 7,500 triploid grass carp were placed in a one mile section of the All American Canal, Imperial County, California. Within two months, the fish had removed nearly all aquatic vegetation from about one mile of the canal. In FY 1986, additional triploid grass carp will be stocked in other sections of the All American Canal.

Additionally, in FY 1984 and FY 1985 the Florida hydrilla project included a 15 to 20 acre study block extended to 30 to 40 acres on the Congen properties at La Belle, Florida. About 7,000 triploid grass carp were stocked in the canal system. The fish reduced but did not eliminate all of the hydrilla due to its rapid growth.

Witchweed

APHIS, in cooperation with State, local, and industry groups, conducts regulatory and eradication activities to control witchweed in North Carolina and South Carolina. Program activities have been effective in preventing pest spread to corn-producing States while eradicating the weed in several counties in the Carolinas. Since the beginning of the program, approximately 281,000 acres have been released from quarantine regulations, including 60,000 in FY 1985.

Plant Health Emergencies

APHIS conducts emergency response planning, support, and program operations to maintain the capability to respond to outbreaks of diseases or pests which had not been predicted and which, if immediate action is not taken to combat the condition, could result in significant damage to the Nation's agricultural resources. This can include conditions for which there is no current program or, in certain situations, for which APHIS conducts ongoing activities. The latter situations include: a plant disease discovered in an area remote from a previously known infestation or infection; a pest or disease outbreak of major significance and which has developed beyond expectations; and preventing a reoccurence or buildup in areas where an existing infestation or infection had been eliminated or substantially reduced as a result of unusual or unexpected change in weather or other natural conditions.

APHIS developed action plans which were involved in operations designed to combat outbreaks of citrus canker (Florida), Africanized honey bee (California), white garden snail (California), Oriental fruit fly (California), and apple ermine moth (Washington).

Africanized Honey Bee

The discovery of a nest of Africanized honey bees was confirmed in Kern County, California in June 1985 -- the first infestation of the strain ever to have occurred within the United States. By the end of FY 1985, an additional seven Africanized colonies were discovered in the general vicinity of the initial find.

An APHIS developed action plan was implemented immediately following the initial detection. This set in motion the establishment of a quarantine, aerial surveys to determine areas where pollination is necessary, detection of all feral (wild) colonies within a 50-mile radius, inspection of all apiaries within the regulated area, survey operations in the core and surrounding areas, and destruction of colonies determined to be Africanized. By the end of FY 1985, apiary sampling within the targeted area was near completion with more than 17,000 colonies sampled. Public call-ins regarding feral colonies continued to be investigated at the rate of about ten per day, resulting in about five new sites per day requiring sample collection.

At the beginning of FY 1986, efforts were underway on the part of a previously formed committee of bee experts to fully evaluate the current situation. This would include an assessment of the extent to which those traits of Africanized bees deemed undesirable may have been dissipated among the local bee population through mating with European bees, thereby reducing or eliminating the threat originally posed to California and the Nation.

Citrus Canker

Citrus canker was discovered at a nursery in Winter Haven, Florida, near the center of Florida's citrus-growing area, in August 1984. By the end of the calendar year, an additional eight nurseries were found to be infected. APHIS participated with the State of Florida on a 50-50 cost sharing basis in all aspects of an emergency program to eradicate the disease. The program consists of quarantine enforcement, destruction of infected and potentially infected stock, defoliation of exposed trees, survey work, and other related activities.

After several months without a detection, there was a new discovery at a nursery in Haines City, Florida, in August 1985, and at six additional establishments over the following 2-month period. This highlights the difficulty experienced to date in achieving eradication of this particular strain of canker which can remain dormant for many months before its symptoms become apparent.

Operations continue and consist primarily of the destruction of infected plants, decontamination of infested nurseries, tracebacks of all plant material transferred to other locations, and further surveillance to determine the extent of additional spread. During FY 1985, approximately 13.5 million plants or root stock items were destroyed, resulting in Federal indemnity payments to owners of destroyed plants totaling approximately $4.1 million. This represents 50 percent of the value of the destroyed plants as determined by a panel of Federal, State, and industry experts. The State and the Florida citrus industry absorbed the other 50 percent.

ANIMAL DISEASE AND PEST CONTROL

Current Activities: The Department cooperates with State and local agencies and producers in nationwide programs to control and eradicate animal diseases to protect U.S. livestock and poultry industries. APHIS administers laws and regulations to prevent the spread of diseases through interstate shipment of livestock. The welfare of certain laboratory animals, pets, exhibition animals, and horses is protected. Miscellaneous diseases of animals which threaten livestock, poultry, and related industries of the United States.

APHIS carries out an inspection and quarantine program to prevent communicable animal diseases of foreign origin from entering the United States. The Agency cooperates with many Western Hemisphere nations to prevent, control, and eradicate communicable diseases of animals which threaten livestock, poultry, and related industries of the United States.

Under the Virus-Serum-Toxin Act, the Department conducts regulatory and laboratory activities to prevent the production and interstate distribution of worthless or harmful veterinary biologics.

1. Animal Disease Detection

During Fiscal Year 1985, there were 480 diagnostic investigations in the United States for foreign animal diseases. Of these, 440 cases were because of suspected Vesicular conditions. Four hundred and thirteen of the investigations were made in the last quarter as a result of the reccurrence of vesicular stomatitis (VS) type New Jersey in New Mexico, Arizona, and Colorado. The program conducted two animal disease diagnostician courses for 30 veterinarians (four are State regulatory veterinarians). There are now 260 veterinarians available in the United States for field investigations of foreign animal diseases.

National Animal Disease Detection System (NADDS)

NADDS is an effort to systematically collect, analyze, and disseminate information on animal disease prevalence, incidence, trends, and economic costs. Data is collected by veterinary medical officers from randomly selected farm cooperators, then centrally analyzed and interpreted. This Federal-State-industry effort continued the pilot phase in six States -- California, Colorado, Georgia, Iowa, Ohio, and Tennessee -- in FY 1985. The Department has received commitments from Wisconsin and Michigan to participate in FY 1986. We now have enough herds and flocks participating in the program to begin collecting statistically and biologically significant information.

Avian Influenza

The eradication of avian influenza was completed this year. After the quarantine was released in Pennsylvania, April 2, 1985, and in Virginia, March 15, 1985, the Agency conducted a six month followup surveillance program. During the surveillance period, two additional flocks were depopulated in Pennsylvania when blood tests revealed the presence of antibodies to the virus in these flocks (seropositive). There were no seropositive cases in Virginia poultry nor any detection of the avian influenza virus in either State.

2. Animal Health Compliance and Enforcement

Under this program, APHIS monitors the health of the nation's livestock through animal identification and disease surveillance and ensures compliance with regulations to prevent the interstate spread of animal disease. Traceback is one of the most efficient tools used to determine the origin of animal disease. Eartags are applied during the life of an animal and backtags are applied at livestock concentration points. As an animal moves from the farm to market and subsequently to slaughter, all manmade identification devices are collected. This allows the animal to be traced back to its point of origin. Regulation enforcement is achieved by monitoring livestock movements, maintaining liaison with practicing veterinarians and industry, and investigating and prosecuting alleged violations.

In FY 1985, APHIS has maintained tighter surveillance on markets, animal concentration points, and slaughter establishments. This prevented known reentry of brucellosis into the Free States this year. The program conducted 26,516 Federal inspections at livestock markets, concentration points, and slaughter plants. Over 7.5 million cattle were tested for brucellosis. The program provided backtags to identify animals for disease surveillance for 19.9 million cattle.

Compliance officers submitted 1,300 investigations of alleged violations of interstate regulations (two or more per case) for possible prosecution, an increase of 39 percent over FY 1984. Veterinary Services processed 600 cases for action, an increase of 19 percent. Criminal prosecution was recommended for 53 cases. Civil prosecution was recommended in 173 cases. Two cases were recommended for both criminal and civil prosecution. Of the remaining cases, 259 were processed with letters of warning, 112 were closed administratively, and one was sent to OGC for review without a recommendation.

3. Import-Export Inspection

Export Animals

The Export animals program is designed to protect and expand U.S. foreign agricultural markets by ensuring that all livestock, live poultry, and hatching eggs offered for export from the United States are inspected and/or certified as being free of communicable disease, have proper health certification to meet regulatory requirements and are in compliance with the U.S. Department of Agriculture (USDA) health agreements with the importing country.

In FY 1985, the Agency opened a new market for U.S. cattle and sheep by certifying and coordinating the shipment of 1,200 animals to the Peoples Republic of China. In FY 1986, the Agency will conduct new negotiations with the Chinese government to establish less restrictive health regulations for U.S. livestock exports.

The following table summarizes livestock and poultry exports from the United States for FY 1985:

	Canada	Mexico	Other	Totals	Value
Cattle	15,729	22,921	20,569	59,219	$106,445,000
*Horses	8,495	614	2,407	11,516	119,013,000
Sheep/Goats	42,478	249,576	1,271	293,325	16,275,730
Swine	81	1,371	12,163	13,615	7,971,042
Total livestock	66,783	274,482	36,410	377,675	$249,704,772
Poultry				29,872,226	$52,750,000
Hatching Eggs (dozen)				13,535,587	$25,996,427
Semen (dollar value)					$25,527,967
Embryos (Estimated)				5,685	N/A

* Figures do not include horses exported to Canada and returned to the United States within 72 hours.

Import Animals

The import animals program ensures that all animals imported into the United States are free of infectious diseases. Its purpose is to prevent the introduction of foreign animal diseases into the United States.

Eleven states are approved to complete the treatment for stallions and eight are approved to complete the treatment for mares received from contagious equine metritis-infected countries. The veterinary colleges at Cornell in Ithaca, New York, and the University of California in Davis, California, are approved to do corrective surgery on mares with incomplete clitoral sinusectomies.

Ninety head of cattle were qualified for importation from Europe and completed the quarantine at the Harry S Truman Animal Import Center in mid-March 1985. A shipment of 65 zoo animals was imported from Kenya in December of 1984. This shipment included 21 giraffes, the largest shipment of giraffes in over a decade.

Eleven countries submitted requests to be recognized free of specific exotic diseases. The Agency granted four requests, denied five, and two are pending additional information.

During FY 1985, approximately 1,500 smuggled birds were quarantined and auctioned to the public. APHIS, U.S. Customs Service, and Fish and Wildlife Service are reimbursed for seizure and quarantine costs from the public proceeds of these auctions. APHIS has constructed permanent smuggled bird quarantine facilities in Mission, Texas, and Otay Mesa, California.

The following table summarizes livestock, bird, and poultry imports for the last two fiscal years:

	FY 1984	FY 1985 (EST)
Cattle:		
Canadian Border Ports	348,982	351,600
Air & Ocean Ports	221	110
Mexican Border Ports	438,521	180,733*
Total Cattle	787,724	532,443
Swine:		
Canadian Border Ports	1,066,014	1,481,847
Air & Ocean Border Ports	42	137
Total Swine	1,066,056	1,481,984
Horses:		
Canadian Border Ports	27,395	22,450
Air & Ocean Border Ports	5,175	5,119
Mexican Border Ports	3,206	2,060
Total Horses	35,776	29,629
Sheep	13,362	9,540
Other	8,419	8,320
Total Livestock	1,911,337	2,061,916
Commercial Birds	741,921	575,000
Poultry	5,544,591	6,000,000
Hatching Eggs	9,874,575	10,000,000

*The drop in U.S. cattle imports from Mexico in FY 1985 is due to the Mexican government's decision to limit the number of cattle which can be exported from Mexico in a given year.

4. International Programs

APHIS has stationed veterinary medical officers in Rome, Italy, since 1964 and in Manila, Philippines, since 1984, to collect information on exotic animal diseases, provide liaison with international organizations working with animal health problems, and promote animal exports by resolving health related import-export problems. In FY 1985, APHIS established a new veterinary position in Santo Domingo, Dominican Republic, to monitor the Caribbean region. The Agency also continued support to USAID by placing five experts and support personnel in Bamako, Mali, to assist with a livestock project.

The program maintained its cooperative agreements with Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Nicaragua to prevent the spread of foot-and-mouth disease into those countries and the United States. During FY 1985 the Agency investigated 377 suspected cases of vesicular diseases throughout the region, and confirmed the presence of vesicular stomatitis in 184 cases. In the event of a serious disease outbreak, these programs provide for a quick cooperative response aimed at rapid control and eradication.

5. Veterinary Biologics

Under the Virus-Serum-Toxin Act, APHIS directs efforts at preventing the production and interstate distribution of worthless or harmful veterinary biologics. Program activities include licensing all producers of veterinary biologics in interstate commerce, testing products, and inspecting licensed facilities. The number of licensed establishments increased in FY 1985 from 58 and 2 permittees to 65 and 2 permittees. The program issued seven new establishment licenses, and there were 11 changes in existing establishment licenses. The 65 licensed manufacturers distributed a total of 1,323 products. These products prevent, detect, or treat 121 diseases.

A total of 9,050 serials of veterinary biologicals were registered with APHIS for evaluation during FY 1985. These serials included 2,133 (23 billion doses) for use in poultry, and 6,917 serials (1 billion doses) for use in other species. The Agency withheld 5 percent of poultry serials and 4 percent of serials for other species from the market because they did not meet the requirements of being safe, pure, potent, and efficacious.

APHIS conducted 38 inspections of licensed establishments in FY 1985. Of 70 consumer complaints received, the Agency satisfactorily resolved 60 and is still investigating 10.

In FY 1985, the National Veterinary Services Laboratories (NVSL) developed an *in vitro* test for porcine parvovirus vaccines and a cell culture test to identify extraneous bovine virus diarrhea in production vaccines. NVSL also designed a fast and accurate computer software system for tracking veterinary biologics consumer complaints.

6. Veterinary Diagnostics

The National Veterinary Services Laboratories (NVSL) in Ames, Iowa, and in Plum Island, New York, provide laboratory diagnostic capability for domestic and foreign animal diseases. Services include differential diagnosis, blood and tissue examination, culture analysis, toxicological testing, and reference antigen production.

In FY 1985, the Foreign Animal Disease Detection Laboratory of NVSL responded to the increased demand from the biotechnology industry for faster, more economical tests of hybridomas and cell lines by developing and using *in vitro* safety tests for akabane, epizootic hemorrhagic disease, bovine ephemeral fever, and hog cholera.

NVSL implemented a new program to detect fraudulent cattle blood samples by screening all blood samples submitted for export testing. In response to an outbreak of bovine babesiosis in Puerto Rico, the laboratory conducted over 32,000 tests on serum samples plus parasitologic examination of blood smears from clinically ill animals.

7. Animal Health Protection

The animal health protection programs include primarily those that perform the surveillance, control, and eradication of specific animal diseases. APHIS maintains a cadre of trained personnel who respond to emergencies but work on disease control and eradication programs during those times when there are no emergencies. The animal health protection programs are those from which personnel are primarily drawn during emergencies.

Brucellosis Eradication

In FY 1985, the Cooperative State-Federal Brucellosis Eradication Program made continued progress as reflected by a reduction in the Market Cattle Identification (MCI) reactor rate from 0.29 percent in FY 1984 to 0.26 in FY 1985. The number of infected herds also decreased from 8,467 in FY 1984 to 6,982 in FY 1985. The decrease in these two statistics is primarily due to the improvement of the brucellosis situation in the high-incidence States.

In FY 1985 Congress directed APHIS to meet the following State classification goals: at least 22 Free States, not more than 21 Class A States, not more than 6 Class B States, and not more than 4 Class C States -- with no change in classifications and without reducing cooperative agreements and indemnity rates. The program has exceeded the State classification goals for Class Free and Class A States, and met the goals for Class B and C States which Congress directed for FY 1985. There are now 23 Class Free States (including the District of Columbia and U.S. Virgin Islands), 20 Class A States, 6 Class B States, and 4 Class C States. APHIS has not unilaterally reduced any State agreements or indemnity rates. The only agreements reduced have been at the request of individual States. The only indemnity rate decreases have been in instances where individual States, such as Texas and Arkansas, have requested decreases so that the savings could be redirected into other areas of the brucellosis program.

Under the present system of classification, three additional States -- Minnesota, Montana, and Wyoming -qualified for Class Free status in FY 1985. Also, three States -Georgia, Kansas, and Tennessee -qualified for Class A status. The State of Mississippi qualified for Class B status. This status was attained after 5 years of vigorous application of program procedures and standards. If this momentum continues, Mississippi should attain Class A status in a relatively short period of time.

The reduction of the MCI rate and number of brucellosis infected herds continued in three of the five States -- Tennessee, Alabama, and Kentucky -- that have fully accelerated their programs since 1977. Georgia had a very slight increase in infected herds and Arkansas had an increase in its MCI rate but a significant decrease in the number of infected herds.

In FY 1985, the APHIS continued to fund and conduct modified accelerated programs in Florida, Louisiana, Mississippi, Oklahoma, and Texas. Four of these States demonstrated a decrease in their MCI rate. All of these States had a decrease in the number of infected herds.

The number of calves vaccinated continued to increase from 8.8 million in FY 1984 to 9.3 million in FY 1985. This is the fourth consecutive year the number of calves vaccinated exceeded the previous peak number of 7.3 million reached in FY 1964. Calfhood vaccination is funded primarily by the States and industry.

The Market Swine Testing Program reactor rate decreased from 0.036 percent in FY 1984 to 0.029 percent in FY 1985. The number of sows and boars tested under the slaughter surveillance program decreased from 2.6 million in FY 1984 to 2.4 million in FY 1985 and the number of sows and boars blood tested on farms increased from 463,000 to 477,000. New York qualified for validated status in FY 1985. At the end of the year, 25 States, Puerto Rico, and the Virgin Islands held Validated Brucellosis-Free status.

Cattle Fever Ticks

The cattle fever tick eradication program is designed to eradicate *Boophilus* and *Amblyoma* ticks from Puerto Rico and to prevent the reestablishment of *Boophilus* ticks in the United States.

APHIS has tick inspectors stationed along the U.S.-Mexico border, who are responsible for apprehending stray and smuggled livestock which cross the border and could transmit tick infestations. Last year, Mexico curtailed its tick eradication program and reduced its tick control activities due to insufficient funds. This increased the risk of tick-infested cattle crossing the border. Every time a stray animal crosses the border, all animals on the affected premises must be quarantined and spray dipped. The Department has initiated studies, in coordination with the Mexican government, to develop treatment for a number of pesticide-resistant ticks which have been identified in Mexico.

In April 1985, cattle tick fever (babesiosis) was diagnosed in Puerto Rico. By the end of the fiscal year, 258 premises having approximately 18,684 cattle were under quarantine. Due to the outbreak, APHIS has accelerated tick eradication work on the island. In FY 1985, 8,018 infested premises were cleared of the ticks as opposed to 1,750 in FY 1984.

Foot-and-Mouth Disease (FMD - Darien Gap)

In Panama, APHIS carries out program activities through the Joint Panama-U.S. Commission for the Prevention of Foot-and-Mouth Disease. The majority of the program work is done in the Darien Province and the San Blas Islands adjacent to Colombia. Activities include monthly inspection of susceptible animals, control of animal movements, and investigation of suspicious cases. In FY 1985, the Commission conducted 88 vesicular disease investigations and found 16 cases of New Jersey type vesicular stomatitis (VS) and 16 of Indiana type VS.

The Vesicular Diseases Diagnostic Laboratory in Panama City provided diagnostic services for vesicular diseases to Panama and all Central American countries. During FY 1985, the laboratory processed 331 samples obtained from suspicious vesicular disease investigations.

In Colombia, USDA continues to provide financial assistance to the ICA-USDA Cooperative FMD program. This program's aim is to prevent the northward spread of FMD during and after construction of the Pan American Highway. During FY 1985 field personnel conducted 56 vesicular stomatitis investigations and found 12 cases of Indiana type VS and 10 of New Jersey type VS. In the FMD free area (Area 1), there was an outbreak of FMD. This was the first case of FMD in the free area since 1974. It was eradicated quickly and there have been no additional outbreaks.

During the first quarter of FY 1985, APHIS evacuated USDA personnel from Colombia as a result of threats against U.S. citizens. In spite of this, the program continues without interruption, and the overall program supervision is now provided by the USDA personnel in Panama.

Miscellaneous Animal Diseases

The Miscellaneous Animal Diseases program provides the flexibility to respond to disease outbreaks and attacks which are not covered by a budget line item. The program now includes scrapie, bluetongue, scabies, and several equine diseases.

Scrapie

APHIS continued implementation of its new bloodline reporting system. The bloodline system involves identifying infected animals, and then locating and eliminating the offspring of that animal. Previously, entire flocks were eliminated whenever an infected animal was found. The new system reduces indemnity payments by destroying bloodline animals and their offspring only when adequate records are available. APHIS is also participating in a cooperative effort with the University of California and Agricultural Research Service to develop a diagnostic test for scrapie. During FY 1985 the Agency identified 27 scrapie outbreaks in 12 States, and depopulated 1,291 animals.

Bluetongue

Bluetongue, an infectious viral disease, affects a wide variety of ruminant animals. Of the 22 bluetongue serotypes reported worldwide, 5 are known to exist in the United States. Bluetongue costs are substantial in lost exports, because European and other countries refuse to accept U.S. cattle, sheep, and goat exports due to the disease. USDA annually conducts a survey to identify those States that are bluetongue-free or have an extremely low incidence of bluetongue, to facilitate U.S. ruminant exports. A survey in FY 1985 in 18 northern States revealed no animals positive for bluetongue. A similar survey for FY 1986 began October 1, 1985, and includes 11 additional States believed to be free or have a low incidence of bluetongue. The Agency is developing an active campaign to inform potential importers of the survey results.

Scabies

The number of cattle scabies outbreaks decreased from 75 in FY 1984 to 35 in FY 1985. APHIS continues to provide technical and regulatory support to State programs.

Equine Diseases

APHIS impaneled a committee of experts on equine diseases to evaluate USDA's import test procedures and policies. Following the committee's recommendations, the Agency is developing import diagnostic tests for equine diseases. The Department is also evaluating possible treatments for equine piroplasmosis.

National Poultry Improvement Plan (NPIP)

A new program "U.S.M. Synoviae Clean" was added to provisions of the NPIP for turkey flocks during 1985. The provisions were updated to meet the needs of a dynamic poultry industry.

In response to a request from the poultry industry, a Model State Program was developed to prevent the spread of economic disruptive poultry diseases. This program will be reviewed by State poultry industry delegates at the Biennial NPIP Conference in June 1986.

Progress is being made in eliminating pullorum-typhoid diseases. The numbers of isolation of *Salmonella pullorum* are down considerably from the same period last year (from 33 to 15); and we continue to have no *S. gallinarum* (fowl typhoid). With the addition of Rhode Island and Kentucky, there are now 30

States classified as "U.S. Pullorum-Typhoid Clean States." Two additional States, Wisconsin and Colorado, are being classified as "U.S. Pullorum-Typhoid Clean State, Turkeys."

Poultry Diseases

APHIS continues to provide early detection tests for highly infectious poultry diseases, such as exotic Newcastle disease and psittacosis. The States and industry support these activities through disease surveillance and by reporting suspicious cases. In FY 1985, there were eight outbreaks of exotic Newcastle disease in five States, probably caused by illegal smuggling of exotic birds. Rapid detection limited the total losses from these outbreaks to under $615,000. Five to 10 percent of the 2,300 specimens submitted by avian practitioners tested positive for psittacosis. The Agency will continue to monitor this disease in order to prevent its spread to humans.

Pseudorabies

The Department continued to carry out its pilot projects in Illinois, Iowa, North Carolina, Pennsylvania, and Wisconsin. Results so far are encouraging. Cleaning up infected herds appears less expensive and less disruptive to owners than anticipated, and most herds in which pseudorabies has been eliminated remain free of the disease.

In Iowa and Illinois the projects are in limited geographic areas and participation is voluntary. The projects in North Carolina, Pennsylvania, and Wisconsin are statewide and animals are tested for pseudorabies at slaughter or at market.

In Iowa only one of the 31 herds initially found to be infected still has pseudorabies. In Illinois 18 herds were freed of the disease. Only three additional herds have become infected. In Wisconsin, extensive testing identified only 12 infected herds, in addition to 14 infected herds already known. Eleven of these herds are now free of the disease, and the State has initiated an eradication program. In Pennsylvania, there are 28 known infected herds, all in the Lancaster area. A plan has been developed to depopulate these herds by May 1986. Lack of producer incentive and a late start have hindered progress in North Carolina. However, two of the largest corporate producers have recently indicated an interest in implementing cleanup plans.

The Department prepared an amendment to Part 85 of the pseudorabies regulations to clarify requirements governing interstate movement of livestock.

Screwworm

The goal of the screwworm eradication program has been to eradicate the pest down to the Isthmus of Tehuantepec in southern Mexico and establish a barrier zone in that area to prevent reinfestation of freed areas to the north and west. Eradication of self-sustaining screwworm populations north and west of the Isthmus was accomplished by the end of July 1984. Consequently, during FY 1985 the program's focus shifted from eradication to maintenance of the sterile fly barrier and operation of a quarantine line. In January, the Mexico-U.S. Screwworm Eradication Program officially ended its eradication efforts and by the end of September 1985 there were no self-sustaining screwworm populations within the 200 mile wide barrier zone.

There were three major program changes in FY 1985: the relocation of field inspectors, the reduction of sterile fly production, and the intensification of the control of animal transport through the barrier zone. To intensify the field inspection, 107 inspectors from the other four regions in Mexico were transferred to the barrier region. The production of sterile flies was limited to the number required to maintain the barrier zone: i.e., 300 million per week. Program air operations were moved to three centers within the barrier zone, and all other packaging and distribution centers were closed. The administrative functions at the Guadalajara and Tampico distribution centers were absorbed by existing personnel in the Mexico City offices.

The three permanent quarantine stations and railroad loading point inspections continued to function efficiently. The quarantine stations inspected and either dipped or sprayed 62,281 animals since the first of January: 4,523 animals were found to have wounds and only 10 animals had screwworm infestation. All wounds were treated, and those animals with screwworms were quarantined until they could be safely transported.

In June, a screwworm outbreak occurred in San Luis Potosi and Tamaulipas -- close to the Texas border -- and was brought under control in August in only two generations after detection. There were a total of 140 positive screwworm cases detected. An eradication task force consisting of 148 members was set up in San Luis Potosi, Tamaulipas, Nuevo Leon, Veracruz, Queretaro, and Hidalgo. At the peak of the outbreak there were 112 flights flown weekly from Tamuin, San Luis Potosi, and Ciudad Victoria, Tamaulipas, for dispersing 94,617,600 sterile flies and 10,620 pounds of SWASS.

The Agency is concerned that native fly migration into the current barrier zone during periods of heavy population buildups in the Yucatan Peninsula could threaten the integrity of the barrier. Sterile flies released in those areas could prevent or eliminate buildups. However, the current Mexico-U.S. screwworm agreement provides for eradication of the screwworm only down to the Isthmus of Tehuantepec. The Department is now in the process of amending the agreement between Mexico and the United States to allow the Commission to eradicate the screwworm from the rest of Mexico and enter into agreements with the other countries of Central America and Panama. During those times when there are no screwworm outbreaks in the eradicated area north and west of the Isthmus, sterile flies that are in excess of needs for maintenance of the barrier could be dispersed in areas east of the current barrier zone; i.e., the Yucatan Peninsula and adjacent areas of Guatemala and Belize. This would free Mexico entirely from screwworms and move the barrier to that country's southern borders.

Swine Health Protection

In FY 1985, the swine health protection program continued its effort to prevent the introduction and spread of swine diseases such as hog cholera and African swine fever into the United States. Program activities include regulating garbage feeding to swine in States where it is not prohibited; searching for illegal garbage feeders; and surveying for African swine fever and hog cholera in swine from "high risk" areas through serological testing of blood samples collected at slaughter. Enforcement of the Swine Health Protection Act increased significantly during FY 1985. The percentage of violations resolved was 93 percent in FY 1985 versus 65 percent in FY 1984. In addition, over 55,000 inspections of licensed garbage feeding facilities were conducted in FY 1985, an increase of 10 percent over FY 1984's total.

Tuberculosis

In FY 1985, 29 tuberculous herds were detected -- 23 infected and 6 exposed. In addition, one infected herd that was not depopulated in FY 1984 was carried over into FY 1985. Of these 30 herds, 18 were depopulated and the remaining 12 were put on herd testing plans. USDA may decide to depopulate some of the remaining herds at a later date.

In the continental U.S., the majority of the tuberculous cattle herds were found in two outbreak areas. The first was in North Carolina and Virginia. An infected beef cattle herd in North Carolina lead to the detection of nine additional tuberculous herds in that State and three in Virginia. The second was in the Texas-New Mexico dairy region known as the El Paso milk shed. Four tuberculous dairy herds were found in Texas and six in New Mexico. The Department implemented a task force operation in Texas-New Mexico to carry out herd testing to identify all sources of infection.

In FY 1985, APHIS made a major effort to eradicate tuberculosis from Hawaii. Tuberculosis was first diagnosed in the State in 1940, and repeated attempts to eradicate the disease through testing and removal of reactors have proven unsuccessful. Since the State's three tuberculous herds are located on the island of Molakai, the Department decided to eliminate the disease by depopulating all cattle on the island. In FY 1985, a USDA task force identified and appraised over 7,700 cattle on Molokai for depopulation. The Department should complete the remaining eradication work on the island during FY 1986.

Five tuberculous bison herds were found in FY 1985. This brings the total to 23 infected herds located in 10 States since the outbreak was first discovered in April of 1984.

Three States, North Carolina, Virginia, and New Mexico lost Accredited-Free Tuberculosis status while Oklahoma, Kansas, Indiana, and Pennsylvania advanced to Accredited-Free status. Twenty-six States plus the Virgin Islands held free status on September 30, 1985, for a net gain of one State.

8. Animal Welfare

During FY 1985, APHIS placed greater emphasis on investigating problem facilities and research facilities, as well as responding to complaints. The quality of animal welfare inspections improved this fiscal year. This was attributed to better training and enhanced supervision. Training included three courses on inspections of research facilities to 52 inspectors; field training for exhibitors, dealers, and inspectors; and a marine mammal course. The program also established a task force to evaluate program effectiveness in individual States.

The number of alleged violation cases increased this year from 196 to 347. In FY 1981, 283 cases were received; in FY 1982, 218 cases were received; and in both FY 1983 and FY 1984, 196 cases were received. Prosecutions decreased from 37 in FY 1984 to 18 in FY 1985. A total of 47 complaints were issued during FY 1985.

9. Horse Protection

The Designated Qualified Person program continued to be an important means of enforcing the Horse Protection Act. APHIS improved monitoring effectiveness by conducting intense inspection reviews at selected shows/sales. Regional Animal Care Specialists developed and maintained program uniformity. Veterinary Medical Officers were kept current on inspection techniques and horse protection policy. APHIS met with horse industry representatives to coordinate the inspection process: communication was good and additional meetings were planned to improve program procedures.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The estimates include appropriation language for this item as follows (new language is underscored; deleted matter is enclosed in brackets):

Buildings and Facilities

For plans, construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities, as authorized by 7 U.S.C. 2250, and acquisition of land as authorized by 7 U.S.C. 428a, [$4,262,000] $2,347,000.

BUILDINGS AND FACILITIES

PROJECT STATEMENT

	1985 Actual	1986 Estimated	Increase or Decrease	1987 Estimated
Construction of facilities....	$3,065,811	$2,626,860	+$5,197,932	$7,824,792
Unobligated balance available, start of year..............	-4,573,463	-3,868,652	- 1,609,140	-5,477,792
Unobligated balance available, end of year................	3,868,652	5,477,792	- 5,477,792	--
Total, Available or estimate......................	2,361,000	4,236,000	(1) - 1,889,000	2,347,000

EXPLANATION OF PROGRAM

The APHIS appropriation "Buildings and Facilities" funds major nonrecurring construction projects in support of specific program activities and recurring construction, alterations, and repairs of existing APHIS facilities. The entire FY 1987 request is for the latter activities.

(1) A decrease of $1,889,000 for nonrecurring construction of a sterile fly rearing facility in Hawaii provided in the FY 1986 appropriation act.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Status of Major Construction Projects
as of November 1985

Location and Purpose	Year	Funds Provided	Description
California, Otay Mesa and Texas, Mission Smuggled Bird Facilities	1982	$400,000	Mission, Texas facility completed October 1, 1983. The General Services Administration awarded construction contract for Otay Mesa facility in September 1984. Major construction was completed in May 1985.
Hawaii, Waimanalo Experiment Station	1981 1986	$3,800,000 1,901,000	Congress originally appropriated $3,800,000 in FY 1981. Architect-engineer contract was awarded in March 1984. The Architect-engineer advised that this facility could not be completed within funds available and meet Congressional intent. Congress appropriated an additional $1,901,000 in FY 1986. The Architect-engineer contract will be modified in early calendar year 1986. Construction contract expected to awarded in early October 1986, and completion now estimated for April 1988.
Hawaiian Sterile Fly Facility		$5,701,000	
Texas, Mission Mexican Fruit Fly Rearing Facility	1981 Plans 1982 Construction	$100,000 865,000	Architect-engineer contract was awarded September 1982. Final facility design was completed in July 1984. The Department awarded a construction contract to the Salazar Construction Corporation on January 22, 1985. Construction was 90% complete as of December 15, 1985.

Estimated Use of FY 1985 Unobligated Balance

Hawaiian Sterile Fly Rearing Facility, Waimanalo, Hawaii	$3,576,792
Mexican Fruit Fly Rearing Facility, Mission, Texas	46,413
Minor repairs and alterations	245,447
	$3,868,652

PASSENGER MOTOR VEHICLES

The 1987 Budget Estimates propose replacement of 170 of the presently authorized 679 passenger motor vehicles. All are fully utilized and those scheduled for replacement will either be over 6 years old or have 60,000 miles on them.

The Animal and Plant Health Inspection Service uses approximately 96 percent of its vehicles in daily travel for the control and eradication of brucellosis, tuberculosis, cattle tick fever, and various plant pests and diseases. The Agency uses the remaining 4 percent for travel related to animal and plant quarantine work. Frequently, they are operated over rugged roads and terrain under adverse weather conditions. Maintaining these vehicles in safe, dependable operating condition is expensive, but essential. The control, eradication, testing, and inspection activities cannot be done without their use.

The requested replacements will be substituted for those cars which have become uneconomical to continue to operate because of their age, mileage, or both.

Age and Mileage Data for passenger-carrying motor vehicles on hand as of September 30, 1985.

Age Data

Age-Year Model	Number of Vehicles	Percent of total
1980 or older	70	11.52
1981	24	3.95
1982	162	26.64
1983	150	24.67
1984	162	26.64
1985	40	6.58
	608	100.00

Mileage Data

Lifetime Mileage	Number of Vehicles	Percent of total
Over 100	6	.98
80 - 100	24	3.95
60 - 80	100	16.45
40 - 60	147	24.18
20 - 40	181	29.77
Under 20	150	24.67
	608	100.00

AIRCRAFT

The 1987 Budget Estimates propose the acquisition of one additional aircraft and the replacement of one of the aircraft presently maintained by the Agency.

Additional Aircraft

One additional aircraft, if needed, will be used by the screwworm program as an observation plane in extreme Southeast Mexico and adjacent areas of Central America. These planes fly behind planes that are releasing sterile screwworm flies to monitor their procedures to ensure proper delivery and to gather data obtainable only by inflight observation.

The data collected by an observation plane will allow the Agency to evaluate the technique of the fly release system currently used and modify it, if necessary, to achieve greater effectiveness in the release procedure.

The Agency has been utilizing contract aircraft in Mexico for joint U.S.-Mexican eradication program. An observation plane will be purchased if needed to monitor this operation.

Replacement

The one aircraft for replacement will be utilized primarily in plant pest control operations. There are presently twelve aircraft in the Agency fleet, one for Veterinary Services and eleven for Plant Protection and Quarantine. Four of the eleven planes are on loan from Veterinary Services. Eight of the twelve planes were built prior to 1970. These aircraft are sometimes used to supervise and observe contract planes which are newer, faster models than those the Agency has available. While this replacement authority is requested each year in the appropriation act, the aircraft will be replaced only if necessary to maintain the fleet in safe and efficient operating condition.

In addition to making aerial surveys and aerial application tests, the planes are used for insect trapping operations and for demonstrating the use of special equipment for suppression of destructive insects attacking crops.

GPO 821-624

I. Summary

- The Mediterranean fruit fly (Medfly) is a serious plant pest in Central America. A sterile fly barrier is maintained at the Mexico/Guatemala border; however, U.S. agricultural producers and regulatory officials are concerned with the possibility of spread into additional agricultural production areas.

- The Senate Appropriations Committee directed APHIS to examine the feasibility of moving the sterile fly barrier southward, perhaps to Panama.

- Eradication of the Medfly from Central America and Panama is technically and operationally feasible. It is supported by the people and the governments of the region, as it will improve the standard of living in the area and result in reduced use of pesticides.

- Eradication will lower the possibility of entry and establishment of the pest in the United States, the Caribbean, and other noninfested areas of the world.

- Skills developed in the conduct of such a program will increase the ability of the governments to deal efficiently with other pest situations.

- Eradication will have a significant beneficial impact on the pest free movement of agriculture crops and offset to some extent the loss of ethylene dibromide.

- A 9-year eradication program using proven methods is estimated to cost $348,958,000.

- Preliminary estimates providing for fewer pesticide applications indicate a potential savings of approximately $50 million. Another potential economy could involve construction of one more production facility. This increased capacity could shorten the eradication schedule.

- Based on information provided from the affected region, FAO, and USDA, an economic analysis was prepared. Benefits under the most optimistic assumptions do not outweigh costs, but a lower budget might modify that conclusion.

- An international approach to funding and program management is desirable. Some potential donors have indicated a willingness to consider Central American Medfly eradication. FAO is the logical agency to call a meeting to review such an approach with potential donor countries and organizations.

II. Introduction

The Mediterranean fruit fly (Medfly) was introduced into Costa Rica in 1955 and has spread throughout Central America, Panama, and into Mexico. In 1977, a cooperative program was organized by the United States, Mexico, and Guatemala to prevent further movement throughout Mexico and into the United States. This program has been more successful then was initially anticipated and has shown that three countries can effectively work together in a cooperative pest management program.

A study to review the feasibility of moving the present Medfly barrier southward through Central America and Panama, by eradicating the insect in those countries was requested by the U.S. Congress, the ministries or departments of agriculture of the United States, Mexico, and Guatemala, and the agriculture industry in the United States. The U.S. agriculture industry has become increasingly concerned about Medfly outbreaks in the United States. Since 1980, there have been five infestations in the United States, centered in Los Angeles and San Jose, California; Tampa and Miami, Florida. Mexico and Guatemala desire to move the present Medfly barrier southward as aircraft overflights necessary to release sterile insects to maintain the barrier in the same location are becoming unpopular with the public.

The U.S. Department of Agriculture (USDA) organized two committees to study the feasibility of pushing the Medfly southward. The first team, headed by Dr. Donald Lindquist of the Joint Food and Agriculture Organization (FAO)/International Atomic Energy Agency (IAEA) Division, with membership from the Agricultural Research Service (ARS), the Animal and Plant Health Inspection Service (APHIS), the Organismo Internacional Regional de Sanidad Agropecuaria (OIRSA), and the governments of Guatemala and Mexico made a technical review of the feasibility of accomplishing this objective. Dr. Lindquist's draft report indicates that technology is available to push the Medfly gradually back through Central America and Panama, primarily through the use of the sterile insect technique (SIT).

The second committee, consisting of representatives from: APHIS, the U.S. agricultural industry, the office of U.S. Senator Lawton Chiles, OIRSA, and the Food and Agriculture Organization (FAO), made a social/political, economic review of the proposal. The committee headed by G. Gregor Rohwer, Plant Protection and Quarantine, APHIS, consulted with the Ministers of Agriculture or their key representatives in Panama, all Central American countries, and Mexico to determine their interest in Medfly eradication and to analyze the social/political, economic aspects of such a program.

The two committees recommend that an international approach to extend the Medfly barrier program operations should be taken through existing organizations such as FAO, OIRSA, and IICA. It is also recommended that potential donor countries or agencies, including those now providing assistance in the region and others with technical or financial interests, should be contacted. The review group is aware of FAO's commitment to, and interest in, SIT and recommends that expertise and financial support through IAEA be requested.

II. Introduction

It was agreed that this matter should be reviewed with the U.S. agricultural industry, the National Plant Board, and the National Association of Commissioners of Agriculture to determine their interest and support in such a program. Further, because of potential interest of the U.S. Government to participate in a program, it was agreed that an effort should be made to contact potential donors to determine whether there is sufficient interest to make an international approach to Medfly eradication in Central America possible. FAO is believed to be the logical agency to arrange for a review and meetings with other countries and international organizations with participation by APHIS in the discussions and planning.

III. Technical Findings

1. Eradication of the Medfly from Central America and Panama is technically and operationally feasible, and is supported by the people and governments of the region.

2. Eradication of Medfly would: (1) eliminate a reservoir for potential spread of the pest throughout Mexico, the Caribbean region, and the United States; (2) enhance the agricultural economy of the region; and (3) eliminate a source of growing concern among people living in the Guatemala/Mexico border region caused by chemical spraying now required to prevent movement of the insect into uninfested areas.

3. The region under study for Medfly eradication encompasses an area of approximately 497,000 KM^2, of which approximately 350,000 KM^2 is currently infested. The region includes the countries of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama. No Medfly infestations are known to occur in Belize.

4. The Medfly-infested region varies greatly in topography, temperature, and abundance of host fruits, which include coffee, orange, peach, pear, grape, and tropical almond. These variables influence the development, behavior, and abundance of the insect.

5. The wide range of ecological conditions and abundance of host plants creates the need for (1) intensive insect surveys conducted before and during eradication to determine the optimum time for beginning eradication and other program requirements; (2) research and development support to aid in anticipating and resolving technical and operational problems.

6. A regional eradication program could be initiated in the Mexico/Guatemala border area and move southward in stages to the Darien Gap region in southern Panama, covering increments of 50,000 KM^2 per stage.

7. Eradication would be conducted primarily through the release of sexually sterile Medflies, supplemented by minimal bait-spray applications to reduce native Medfly populations to manageable levels and to increase the efficiency of the program.

8. To accomplish eradication, a regional program would require a capability for producing 2.5 billion sterile Medflies per week, part of which could be provided by existing production facilities and the remainder by new facilities.

9. Several experimental techniques that could increase the efficiency and effectiveness of Medfly eradication should be evaluated under Central American conditions for possible incorporation into the regional program.

10. The current program for containing Medfly infestations along the Mexico/Guatemala border should be maintained to assure that the pest will not spread throughout Mexico and threaten the United States.

11. Present regulatory quarantine measures to ensure the barrier is effective include inspection stations in southern Mexico, trapping throughout Mexico, and immediate treatment of any infestations that are found. These measures reduce but do not eliminate the risk of northward spread.

APPENDIX I

REPORT

ON

TECHNICAL FEASIBILITY OF ERADICATING THE MEDITERRANEAN FRUIT FLY FROM CENTRAL AMERICA AND PANAMA

Submitted to: The Administrator
Animal and Plant Health
Inspection Service
U.S. Department of
Agriculture

I. SUMMARY

Eradication of the Mediterranean fruit fly (Medfly) from Central America and Panama is technically feasible, and would eliminate a reservoir for potential spread of the pest throughout Mexico, the Caribbean region, and the United States.

The region under study for Medfly eradication encompasses an area of approximately 497,000 KM^2, of which approximately 350,000 KM^2 is currently infested. The region includes the countries of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama. No Medfly infestations are known to occur in Belize.

The Medfly-infested region varies greatly in topography, temperature, and abundance of host fruits, which include coffee, orange, peach, pear, grape, and tropical almond. These variables influence the development, behavior, and abundance of the insect.

The wide range of ecological conditions and abundance of host plants creates the need for (1) intensive insect surveys conducted before and during eradication to determine the optimum time for beginning eradication and other program requirements; (2) research and development support to aid in anticipating and resolving technical and operational problems.

A regional eradication program could be initiated in the Mexico/Guatemala border area and move southward in stages to the Darien Gap region in southern Panama, covering increments of 50,000 KM^2 per stage.

Eradication would be conducted primarily through the release of sexually sterile Medflies, supplemented by minimal bait-spray applications to reduce native Medfly populations to manageable levels and to increase the efficiency of the program.

To accomplish eradication, a regional program would require a capability for producing 2.5 billion sterile Medflies per week, part of which could be provided by existing production facilities and the remainder by new facilities.

Several experimental techniques that could increase the efficiency and effectiveness of Medfly eradication should be evaluated under Central American conditions for possible incorporation into the regional program.

II. REPORT

A. INTRODUCTION

The Mediterranean fruit fly (Medfly) has been eradicated from Mexico through an integrated program of bait sprays and the sterile insect technique (SIT) (Annex 1). A barrier has been established along the Mexican-Guatemalan border to prevent the Medfly's reestablishment in Mexico.

However, the intensive pressure of high Medfly populations in Guatemala has resulted in repeated captures of Medflies in adjacent areas in Mexico, causing great concern that the Medfly might break through the barrier and become reestablished in Mexico.

At the request of U.S. agriculture industry groups, Agriculture Subsecretaries of Guatemala, Mexico, and the United States, and the U.S. Senate, a study is being conducted to evaluate the feasibility of moving the Medfly barrier southward through the Central American countries and Panama. This report is the technical portion of the feasibility study.

The Technical Committee (Annex 2) met in Guatemala City December 3-7, 1984, to prepare the report according to the guidelines in the terms of reference (Annex 3).

B. CURRENT MEDFLY SITUATION IN CENTRAL AMERICA AND PANAMA

The six countries (Annex 4) consisting of Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama lie within the tropics, yet each exhibits considerable individual and national variation in topography, temperature, and rainfall. The region shares a number of common crops; coffee, bananas, and sugar are the principal commodities.

Since the Medfly first appeared in Costa Rica in 1955 and subsequently spread to Guatemala in 1976, it has shown a marked preference for coffee as a host for reproduction. No discernible effect on coffee production or quality is caused by the fly, but the high density of coffee berries permits the development of great numbers of flies which then infest such fruits as citrus, peaches, mangoes, and pears. Noncommercial host fruits such as guava, caimito (star apple), and tropical almond are widely disseminated and permit perpetuation of the pest particularly along the coastal areas.

After the unsuccessful attempt by Costa Rica in 1960 to eradicate the fly with chemicals, technical assistance programs from 1961 to 1982 developed procedures that used the sterile fly technique. A regional organization, Organismo International Regional de Sanidad Agropecuaria (OIRSA) served as a coordinating agency for cooperative projects supported by the International Institute of Agricultural Sciences, U.S. Atomic Energy Commission, and U.S. Agency for International Agency of Energy Atomic.

In 1977, the appearance of Medfly in Mexico led to the establishment of integrated programs to maintain that country free of the fly. Other than the ongoing Guatemala effort, no concerted action against the Medfly is being taken in the remaining Central American countries or Panama. Continuing surveys indicate no presence of Medfly in Belize.

A characteristic of the Medfly in much of Central America is the wide fluctuations in fly numbers from season to season. Populations may fluctuate from from near nondetectable levels to high densities in various ecological areas in a few months time.

Populations of wild flies in coffee-growing areas generally reach their lowest level during the rainy season. The general absence of maturing coffee beans during the rainy season, the scarcity of natural adult fly food, and high pupal mortality caused by the saturated soils are undoubtedly important factors that reduce native fly reproduction and survival. After rains cease, favorable conditions for fly reproduction and survival result in a rapid growth in the native fly populations.

Current eradication strategies should be timed to take full advantage of the natural control factors. Maximum efficiency will be gained from SIT if initial releases are timed to coincide with low and declining natural fly populations. Less bait spraying may be required during the low period of native fly abundance to assure a reduction in native fly populations to manageable levels by subsequent sterile releases. To take full advantage of the natural control factors, it will be necessary before and during eradication programs to determine the magnitude of native fly populations that exist in various portions of the areas. Fly populations will vary depending on the kind and amount of susceptible host fruits, rainfall, average temperatures, topography and other factors. More precise information on the cause or causes of the population fluctuation in various ecological areas can facilitate the planning and execution of eradication strategies in the most effective and economical manner.

The following table presents a list of primary and secondary hosts occurring in Central America and Panama.

PRIMARY AND SECONDARY HOSTS OF THE MEDFLY OBSERVED IN CENTRAL AMERICA AND PANAMA

FRUITS	SCIENTIFIC NAME
Apple	*Malus sylvestris*
Avocado	*Persea americana*
Coffee*	*Coffee spp*
Fig	*Ficus carica*
Grapefruit	*Citrus paradisi*
Guava*	*Psidium guajava*
Mandarin orange	*Citrus reticulata*
Mango	*Mangifera indica*
Orange*	*Citrus sinensis*
Peach*	*Prumus persica*
Pear*	*Pyrus communis*
Pepper	*Capsicum spp*
Pummelo	*Citrus grandis*
Quince	*Cydonia vulgaris*
Red sapote	*Colocarpum mannosum*
Rose Apple*	*Eugenia jambos*
Sour orange	*Citrus aurantium*
Spanish plum	*Spondias purpurea*
Star apple*	*Chrysophyllum cainito*
Tropical almond*	*Terminalia catappa*
White sapote*	*Casimiro edulis*

* Primary hosts

C. ERADICATION TECHNOLOGIES

1. DETECTION

There is a well developed technology for detecting and monitoring Medfly. The adults are captured by traps baited with an attractant; the larvae can be detected by collection and examination of host fruits.

1.1 Trapping

Flies can be captured with available traps that use Trimedlure, a specific attractant for Medfly. When the traps are distributed in the field, one can determine fly locations and densities. From this data, the relative population of the pest can be determined. The trap data allow evaluation of the bait spray and the sterile insect release activities.

1.2 Fruit Sampling

When an area is under control activities and the level of fly infestation is very low, conduct fruit collections of principal hosts can be conducted in selected areas to certify whether the pest is present. The collected fruit must becut and inspected to determine if there are larvae are present.

2. CHEMICAL CONTROL

At present there is substantial knowledge and 30 years experience in the use of a mixture of an insecticide (malathion) and hydrolyzed protein spray (bait) for the eradication of Medfly. This bait spray can be applied to large areas in both flat and mountainous areas.

Malathion: This insecticide is approved by the World Health Organization (WHO) for aerial application in populated areas.

Hydrolyzed Protein: This is a food source that is very attractive to the Medfly and does not harm the environment.

These products are mixed in a ratio of four parts protein to one part malathion, and the mixture is applied at a rate of one liter per hectare. Due to the attractive properties of the bait, a few distinct droplets per square meter are sufficient to reduce the fly populations.

One to three applications provide approximately 98 percent reduction of the adult fly population. If spraying is needed in small isolated areas, ground spray techniques can be used.

3. STERILE INSECT TECHNIQUE (See Annex 5)

Intensive releases of sterile flies reduce the reproductive potential of the native flies. The necessary technology and experience exist to eradicate low level Medfly populations through use of the SIT.

The SIT can be used in two different ways; where populations of native flies are high, sterile flies can be introduced after the native populations have first been reduced through applications of bait spray. Where populations of native flies are low, sterile flies alone can be used to achieve eradication.

The experience of rearing and releasing sterile flies for the eradication of the Medfly in Central America is available. Currently, two facilities exist for rearing sterile flies under cooperative agreements between Mexico, Guatemala, and the United States of America. These sterile flies are being used to maintain a barrier on borders of Mexico and Guatemala.

D. TECHNICAL FEASIBILITY OF MEDFLY ERADICATION FROM CENTRAL AMERICA AND PANAMA.

The committee agreed that eradication of the Medfly from the Central American region is technically and operationally feasible. To accomplish this goal, however, it will be necessary to meet the following requirements:

a. Provisions must be made to maintain the present fly-free areas in Mexico and Guatemala.

b. Eradication efforts on a step-by-step basis must be on a sufficiently large scale to minimize the probability of reinvasion of the Medfly into the fly-free areas.

c. Information must be obtained on native fly distribution, population levels, and the kind, amount, and location of hosts throughout the year in each eradication area.

d. Intensive Medfly and host surveys must be conducted within the eradication zone and immediately preceding it.

e. Sterile fly production must be adequate for the adopted strategies.

f. Appropriate equipment must be used for releasing sterile flies and for applying bait sprays.

g. The program must take full advantage of new technology for producing and distributing high-quality flies.

h. Provisions must be made to assure adequate surveillance of fly-free areas to detect and rapidly eliminate any reinfestations.

i. Provisions must be made for adequate quarantines at suitable locations to minimize the probability of reinvasion of fly-free areas through movement of infested commodities.

E. ERADICATION STRATEGIES (See Annex 6)

The basic eradication strategy should rely on the SIT. When required, the native fly populations should first be reduced with bait sprays.

The most feasible approach to eradication is to implement a program based on the following:

1. The program should be initiated in Guatemala and then move to the south in increments of approximately 40,000 to 50,000 km^2 per year of potentially infested area. An alternative to this approach would be to start both in Guatemala and in Panama with a two-pronged approach.

2. The objective is to rely on sterile flies to eliminate native fly populations equal to or less than 1,000/km^2/week. To reduce some native fly populations to these levels, the use of bait sprays may be required.

3. To ensure an initial sterile to native fly ratio of at least 50:1, it will be necessary to release an average of 50,000 sterile flies per km^2 per week. Release at this average rate should continue for 1 year. This procedure is based on that developed by Moscamed. However, it should be realized that the Moscamed program in Mexico was fighting a continuous invasion of wild flies from Guatemala. The SIT can eliminate a native fly population in 5 to 6 generations if all procedures are followed correctly and the size of the area attacked at any one time is sufficiently large. The key is to know the length of time of Medfly generations under the conditions of the program. These data are generally not available for Central America. Therefore, if data are obtained on the length of the Medfly life cycle in Central America under the different climatic conditions, then it is entirely feasible that the high rate of release of sterile flies need not continue for 1 year, but could be reduced--in some cases to 6 months.

4. Where bait sprays are applied to reduce the population prior to the release of sterile flies, the mated native females should be eliminated; under these conditions, the release of sterile flies through 5 to 6 generations should be sufficient for eradication. Where the native fly populations are low and no bait sprays are needed to achieve an effective overflooding ratio, it will be necessary to release sterile flies for 6 to 7 generations because of the presence of mated native females.

5. Sterile fly releases should continue for an additional 6 months or less at an average of 10,000/km^2/week. These releases should assure eradication within a maximum of 18 months, and probably less from the initiation of the eradication program in each area.

6. The above rates of sterile fly releases require a production of 2.5 billion sterile flies per week if the program starts in Guatemala; a production of about 3.5 billion sterile flies per week will be required if the program starts in both Guatemala and Panama.

7. Insecticide sprays may be required in localized habitats if the native populations are not adequately reduced by the continuing sterile fly releases.

8. The most strategic time to initiate eradication efforts is just prior to the time of lowest native Medfly population levels.

9. Detection surveys should continue in all fly-free areas to detect any reinfestation that may result from immigrant flies or from movement of infested commodities through quarantine barriers. Any reinfestation should be eradicated.

10. In the initial northern eradication zones the Medfly reaches its lowest population level at the beginning of the dry season. Thus eradication should start at the end of the rainy season/beginning of the dry season. Bait sprays should be used if required prior to the high rate of sterile fly release.

11. Every effort should be made to use only national boundaries for quarantine purposes during the eradication campaign.

F. QUARANTINE

Depending on the area to be treated, the limits for the regulated area should be based on political boundaries if at all possible to eliminate the use of internal quarantines. Clearly defined boundaries would reduce or eliminate the problem of controlling local host movement, except at preexisting border checkpoints or pathways which naturally restrict or inhibit the free flow of people and contraband from one area to another.

Efforts should be made to treat and/or certify commercial commodities with the currently available technology.

The project should give each country a model quarantine to establish a basis for the regulations to be required.

The following identifies principal activities necessary for conducting a regulatory program to prevent reintroduction of Medfly into fly free areas. The extent of the regulatory activity required will depend on the level of the Medfly infestation.

1. Advising regulated industry of required treatment procedures.

2. Supervising, monitoring, and certifying commodity treatments of commercial lots of fruits and vegetables.

3. Contacting:

    a. Local growers and packers.
    b. Commercial haulers of regulated articles.
    c. Public transportation agencies.

4. Monitoring the movement of regulated articles through major airports and other transportation centers.

5. Observing the major highway and quarantine boundaries for movement of host materials.

G. RESEARCH AND DEVELOPMENT REQUIREMENTS

A program of this size will require the support of a research and development unit. Most of the activities undertaken by this unit should be in Central America, located in an area where wild Medflies are present and close to a mass-rearing facility. The research and development should be aimed at increasing efficacy and reducing program costs. Emphasis should be placed on:

1. Medfly behavior and population ecology during the rainy season. In addition, detailed studies should be undertaken to determine the generation time for Medflies in various parts of Central America and under various climatic conditions.

2. Methods of accurately estimating native Medfly populations.

3. Improved marking, packing, shipping, and release methods.

4. A method to determine the sterility which has been introduced into the wild female population.

5. Field procedures for measuring quality of sterile Medflies.

6. Written specifications for required quality of sterile Medflies.

7. An improved method of distinguishing between sterile and native flies captured in traps.

8. Reduction of rearing costs.

9. Pilot tests of new eradication techniques and strategies.

10. Improved computer programs to assist in program strategies.

11. Evaluation of potential attractant for female Medflies.

12. Evaluation of the effectiveness of males only where released.

RESEARCH NEEDS ARE AMPLIFIED IN ANNEX 7

H. TRAINING

Key technical personnel designated by each country for employment in the eradication program will receive on-the-job training. These technicians in turn will give the necessary on-the-job training to workers in their respective countries.

Recurrent training, refresher courses, and seminars on new techniques will be provided by experienced Medfly personnel when appropriate.

I. PUBLIC RELATIONS

Public acceptance and cooperation are crucial to a successful eradication effort. The inconveniences created by quarantine practices, aerial spraying, and release operations can be mitigated by advising the public beforehand of anticipated actions. National pride must be called upon, emphasizing how the nation and private individuals will benefit by enjoying better fruit quality at lower costs as a result of eliminating the Medfly from their country. Professional information specialists are required.

This can be accomplished through leaflets and posters as well as periodicals radio, television, and newspaper presentations that also inform the public on the general course of the program. The use of Indian languages may be necessary in certain areas to convey these messages effectively. Other useful items such as T-shirts, caps, calendars, etc., may be distributed to encourage program support.

J. NEW TECHNIQUES

The development of an eradication program for removing the Medfly from Central America and Panama north of the Canal will result in the introduction of new techniques that can be adapted to programs around the world.

For example, the integration of limited malathion bait spray with maximum use of the SIT is a major step in resolving environmental concerns. Another programatic advancement in Medfly eradication is the precise definition of infested areas prior to development detailed eradication strategies. A comprehensive trapping and host identification program to verify the location of fly populations and eradication techniques anticipated will ensure that the most economical and efficient eradication program is used.

The incremental process to be followed in this program will also provide for the development and integration of new technology while the program is in progress. The time span anticipated for the complete program will provide program managers an opportunity to adapt new concepts and procedures. These are likely to include the release of sterile males only as well as the use of improved attractants, improved sterile fly releases methods, and satellite imagery.

K. CONCLUSIONS

This report presents a critical review of the technical feasibility of eradicating Medfly from Central America and Panama, starting in Guatemala, or in both Guatemala and Panama. The successful campaign to eradicate the Medfly from Mexico using bait sprays and the SIT clearly demonstrates that the technologies available are suitable to eradicate this pest from Central America and Panama. If appropriate procedures and strategies are used and large portions of the land mass handled at one time, eradication can be achieved in 7 to 8 years, or 4 to 5 years if the eradication campaign operates from both the north and south.

III. RECOMMENDATIONS

Based on the preceding report on the current Medfly eradication techniques and taking into account (a) that continued spraying year after year in the border area of Mexico/Guatemala is fast becoming politically and socially unacceptable, (b) the enormous economic and environmental losses if the Medfly becomes reestablished in Mexico, (c) that if the Medfly becomes reestablished in Mexico it would move into the United States where it would cause unacceptable economic losses and environmental damage, and (d) with current technologies Medfly eradication can be achieved, the following recommendations are made:

1. Immediately initiate a program to eradicate the Medfly from Central America. The objective of the program is to eradicate the Medfly within a

predetermined time from Central America and Panama. A Medfly barrier will be established in Panama (Darien Gap). Current Medfly mass production facilities (Mexico and Guatemala) can produce 600 to 800 million sterile flies per week.

The program can be successfully implemented starting in Guatemala and moving south; or a two-pronged attack can be implemented in which eradication would start in Guatemala and move southward and, simultaneously, in Panama and move northward. In both cases, greatly increased production of sterile Medflies would be required. Two or three new mass-rearing facilities are recommended rather than one to avoid a total loss of sterile fly production in case of an emergency. The choice of strategies should be based on economic and political considerations.

To implement the program from Guatemala southward, it is recommended that two new facilities, each capable of producing 1 billion sterile flies per week be constructed. This would provide the program with about 2.5 billion sterile flies per week and could handle 50,000 km^2 of Medfly infested territory simultaneously. Based on favorable climatic conditions, communication, airport facilities, locally available technically trained personnel, and geographic distances within the eradication area, these two facilities should be located at Tegucigalpa, Honduras, and San Jose, Costa Rica.

If the decision is made that a two-pronged approach be implemented, a third mass-rearing facility capable of producing 1 billion sterile flies per week would be required. It is recommended that this facility be constructed at Panama City, Panama. A total of about 3.5 billion sterile flies per week would thus be available, sufficient sterile flies to handle areas of approximately 40,000 km^2 simultaneously in Guatemala and Panama.

2. Strengthen the current Medfly barrier zone between Guatemala and Mexico to ensure that Medfly does not become reestablished in Mexico before the eradication program is initiated. This is essential.

3. Establish the technical and legal infra-structures to facilitate essential regulatory action (quarantine). This is essential to reduce the probability of Medfly from reinvading fly-free areas both during and after the eradication program.

4. Concurrent with the start of the eradication program, establish a Research and Development unit in Central America with the objective of increasing efficacy and reducing the cost of the eradication program. This unit will concentrate on field aspects of the program.

5. Encourage supporting research by other organizations.

6. Plan the program so as to take advantage of new technological developments which have a realistic probability of becoming available within 5 years; such as improved adult attractants, the capability to release sterile males only, improved sterile fly release methods, etc.

7. Consider the benefits of selling sterile Medflies and the eradication technology to other Medfly infested countries when the program is completed.

IV. ANNEXES

1. Report of Medfly Eradication from Mexico.
   (Six years of successful Medfly Program in Mexico and Guatemala).
2. List of Participants.
3. Terms of Reference.
4. Map of Central American and Panama.
5. Basic Principles of the Sterile Insect Technique as Applies to Medfly Eradication.
6. Ecological Regions, Eradication Activities, and Eradication Zones (if political boundaries are not used).
7. Research Needs.

Annex 1

Six years of successful medfly program in Mexico and Guatemala

J.HENDRICHS, G.ORTIZ, P.LIEDO & A.SCHWARZ
Moscamed Program DGSV-SARH, Mexico

Summary

Since it first detection in Costa Rica in 1955, the Mediterranean fruit fly spread northward, reaching Guatemala in 1976, Mexico in 1977; and by 1979 it had reached the Isthmus of Tehuantepec, covering in Mexico - over 0.78 millions hectares of the most difficult topography, tropical vegetation and communications.
Since the formation of the Joined Mexico-Guatemala Comission in 1975, as well as the Mexico USDA Cooperative Program in 1976, the infrastructure was developed to counter the medfly invasion, then to eradicate - it from Mexico and in the long run from all Central America.
By the end of 1979, this infrastructure was ready, including the Metapa Mass-rearing and Sterilization Laboratory, with a weekly production of 500 million sterile flies. From that moment on the Moscamed Program in Mexico and Guatemala has been successful in stopping the forward movement of the fly, and to eradicate it from 360,000 hectares in 1979, - 200,000 hectares in 1980, 100,000 hectares in 1981 and 120,000 hectares in 1982. In september 1982, medfly was officially declared eradicated from all Mexico, as well as large areas in northern Guatemala.
Presently all the efforts are concentrated in eradicating the medfly - from southern Guatemala. It is concluded that under the right social - and political conditions, as well as an a appropriate economical support, it is possible to eradicate the medfly from all Central America.

1. INTRODUCTION

The medfly Ceratitis capitata Wied., a pest of great economical importance in the world, was first reported on the American Continent, in Brazil in 1904. From then on, it has spread through South, Central and lately North America. Only in a very few cases its eradication has been succesful. However, in spite of these eradication failures, the figth against the medfly has been intensified, due to the economical importance that the pest - has for countries that produce and export fruit and vegetables.

In 1975, Mexico and Guatemala, and a year later also the United States, joined forces to stop the northward spread of the medfly, at that time in El Salvador. The aims at the long range was to eradicate it from the rest of Central America, where since it was first reported in Costa Rica in - 1955, it had advanced from year to year in spite of the efforts of the Central American countries to stop it.
Unexpectedly the fly advanced rapidly, crossing all Guatemala in 1976, and by January 1977, it had been detected in the Soconusco region, in the State of Chiapas in Mexico.
The economical importance that the medfly represented for Mexico, was the cause of the creation of the "Programa Moscamed", in which the accumulated worldwide experience of the last 20 years of medfly research was to be applied to prevent the pest from moving further north.

It was the last opportunity to avoid its advance toward the interior of the country, because, once introduced further than the Isthmus of Tehuantepec, in the States of Oaxaca and Veracruz, it would have been almost impossible to control it, even less, to eradicate it. The estimated losses for Mexico, would have reached in 1977 nearly 2 billion dollars, mainly due to the loss of foreign markets. (Gutierrez, 1976).

2. RESULTS

The six years of fight against medfly in Mexico may be divided into two phases: the defense phase, from the moment the fly appeared in Mexico in 1977, until the start of large sterile fly releases at the end of 1979; and the eradication phase, from the end of 1979 until september 1982, when medfly was officially declared eradicated from Mexico (Fig. 1)

MONTH	1977	1978	1979	1980	1981	1982
JANUARY	1	32	410	29	1	1
FEBRUARY	10	74	839	35	5	0
MARCH	7	62	1406	173	28	8
APRIL	11	54	2784	47	42	1
MAY	12	33	952	24	14	0
JUNE	15	50	156	0	4	1
JULY	46	6	10	0	5	0
AUGUST	14	1	7	1	2	0
SEPTEMBER	3	1	0	0	0	0
OCTOBER	2	0	0	0	0	0
NOVEMBER	0	0	0	0	0	
DECEMBER	0	21	8	2	0	
TOTAL	121	334	6570	311	101	

Fig. 1 - Total number of wild Mediterranean fruit flies detected from 1977 to 1982, in the Soconusco area, State of Chiapas, Mexico.

2.1 Defensive phase

When the detection of the medfly was reported in Guatemala in 1976, trapping and quarantine inspections in the border zone of Mexico with Guatemala were intensified. In January 1977, the first detections of the medfly pest in the Soconusco area were made. Bait sprays were carried out inmediately in the detection points. In mountainous areas through which the coffee belt runs, sprays were very difficult, due to inaccessibility of the terrain for conventional planes. A great effort was made therefore to battle medfly outbreaks by ground spraying.

At the beginning of this phase, the program counted with 105 people in the control area that covered a surface of 210,000 has. 10,419 Tons.of -

fruit were fumigated, 54,807 automobiles fumigated and inspected, and 253 tons of fruit were confiscated in the quarantine station.

In 1978 detection of adults nearly doubled and actions were the same - as in 1977. Personnel was increased to 210 people allowing to detect and battle 334 outbreak spots in 460,000 has. 68,200 vehicles inspected and fumigated and 270 tons of fruit confiscated.

At the beginning of this year the construction of the Metapa Mass-rearing and Sterilization Laboratory was begun, whose objective was to produce 500 million sterile flies per week.

Due to the continousmovement of large medfly populations coming from - Guatemala 197,127 has. were sprayed, including a 40 km. long and 20 km. wide area along the border, as well as all the outbreak spots.

In 1979 medfly populations increased 20 fold, spreading over all the - coffee belt of the Soconusco region, an area with a very difficult terrain and very poor or no communications (Fig. 2).

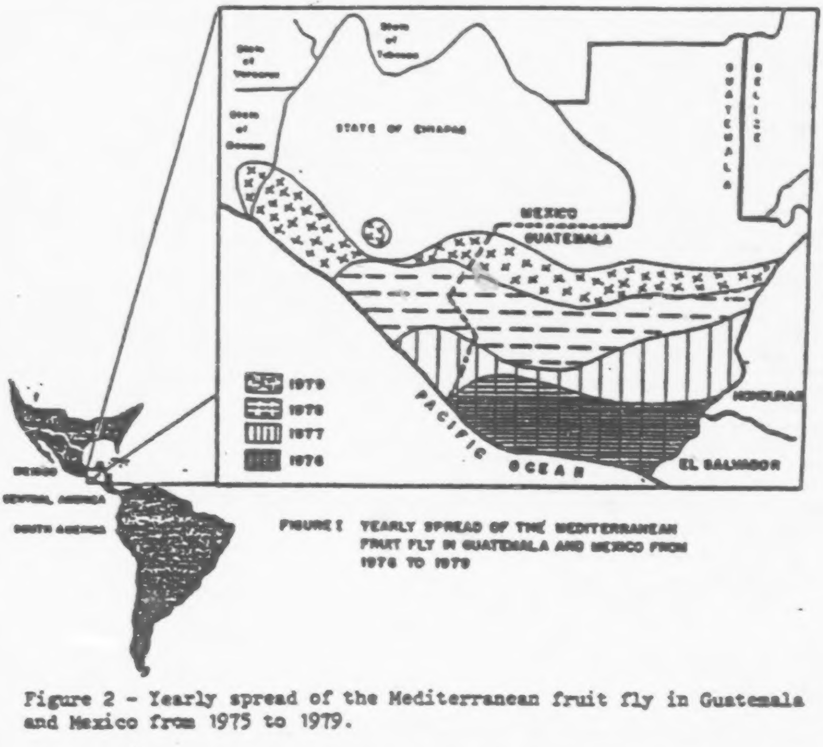
State of Tabasco
State of Veracruz
State of Oaxaca
STATE OF CHIAPAS
GUATEMALA
BELIZE
MEXICO
GUATEMALA
HONDURAS
EL SALVADOR
PACIFIC OCEAN
1979
1978
1977
1976
MEXICO
CENTRAL AMERICA
SOUTH AMERICA
FIGURE 1 YEARLY SPREAD OF THE MEDITERRANEAN FRUIT FLY IN GUATEMALA AND MEXICO FROM 1976 TO 1979

Figure 2 - Yearly spread of the Mediterranean fruit fly in Guatemala and Mexico from 1975 to 1979.

In this year pest outbreaks were detected up to 250 km. inside the country, already in the State of Oaxaca.

The Metapa Mass-rearing and Sterilization Laboratory was inaugurated, starting a production of 50 million of sterile pupa per week. At the end of 1979, it already exceeded 100 million per week (Fig. 8 and 9). This production was dispersed at the front of the pest, following the control with bait spray. The program counted by then with 500 people, including field - and laboratory activities.

Figure 2 shows the area over which wild medflies were detected. The total of medflies captured in 1977, 1978 and 1979 is shown in Fig. 1. During these three years of defensive phase, 1'584,111 liter of the mixture of Malation 91% ULV and hydrolized protein PIB-7 in a proportion 1:4, a dose of 1 liter per hectare, were sprayed aereally.

TABLE I. *C. capitata* HOSTS IN THE SOCONUSCO AREA, STATE OF CHIAPAS, MEXICO FROM 1979 TO 1982.

SCIENTIFIC NAME	COMMON NAME	YEARS OF DETECTION	
Chrysophyllum cainito L.	Star apple	1979-1980	1981-1982
Citrus sineses Osb.	Sweet orange	1979-1980	1981
Citrus reticulata Blanca	Mandarin orange	1979-1980	1981-1982
Psidium guajava L.	Guava	1979-1980	1981-1982
Coffea arabica L.	Coffee	1979-1980	1981-1982
Micropoholis spp	Wild apricot	1979	1981
Eugenia jambos L.	Rose apple	1979	1981-1982
Citrus aurantium L.	Sour orange		1981-1982
Citrus grandis Osb.	Pummelo		1981
Achras sapota L.	Sapota		1981

2.2 Eradication phase

Once enough sterile medflies were available, the situation was set to start the counter offensive against the medfly invasion. During the period from November 1979 to May 1980, 250,000 hectares, the area that showed the highest medfly infestation, was sprayed repeatedly.

Due to the topographical difficulties of the region, high power airplanes and helicopters were necessary. During the nine months that this massive aereal bait spraying program lasted, 1'444,925 hectares were sprayed - with the previously described bait spray mixture. Inmediately following - this drastic reduction of the population in the areas that had received the intensive bait spray treatment, sterile flies were dispersed over this - whole region. The decrease in the detection was dramatic: compared to the 6570 fertile flies caught in 1979, only 311 flies were detected in 1980, of which 99% were in the period from January to May, 1980 (Programa Moscamed 1980). In this year 200,000 hectares were declared free from medfly - (Fig. 3).

From june 1980 on air spraying was completely suspended, and ground - spraying was used on a small scale, directed only at outbreak spots. The - program relied from that moment nearly exclusively on sterile insect releases.

Even so fertile fly detections in 1981 decreased again to only 101 detections, all in the border area with Guatemala (Programa Moscamed, 1981). These spots were treated 12 times by ground sprayings, spaced every 4 to 7 days, before the intensive overflooding with sterile flies. Eradication was achieved each time. The mass-rearing facility passed the production - goal of 500 million sterile flies per week (Fig. 8) and by the end of the year another 100,000 hectares were declared free of medfly (Fig. 3).

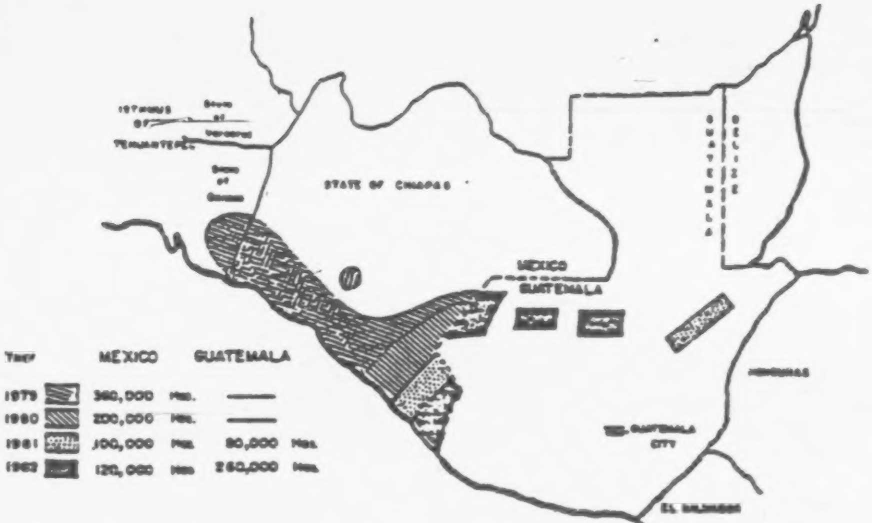
STATE OF CHIAPAS
G U A T E M A L A
B E L I Z E
MEXICO
GUATEMALA
HONDURAS
GUATEMALA CITY
EL SALVADOR
MEXICO GUATEMALA
1979 380,000 Has. ——
1980 200,000 Has. ——
1981 100,000 Has. 80,000 Has.
1982 120,000 Has. 260,000 Has.

Figure 3 - Medfly erradicated areas in Mexico and Guatemala from 1979 to 1982.

By june 1982, only eleven specimens had been detected that year, confirming again the effectiveness of the sterile fly releases. Finally in September of this same year, the last 120,000 hectares of Mexican territory - were declared free of medfly (Fig. 3).

During the last three years intensive fruit sampling became the main - and most sensitive indicator of medfly presence in the erradication areas. (Programa Moscamed 1982c). Weekly one and a half tons of different host - fruits were collected over an area of 300,000 hectares.

Table I shows the host fruits in which medfly larvae were found in Mexico from 1979 to 1982.

Infestation was estimated based on larvae per kg. of sampled fruit. The sampling system was uniform, and based on host phenology throughout the - year. An average of 85% of the fruit samples collected were primary hosts (Table 1). The other 15% corresponded to secondary hosts that were reported in other countries or to wild host (Tejada, 1980). The results of this sampling program are summarized in Table II, comparing with other fruit fly - species as a control:

TABLE II. COMPARISON OF FRUIT FLY INFESTATION DURING THE YEARS 1980 TO 1982, IN THE SOCONUSCO AREA, STATE OF CHIAPAS, MEXICO.

	LARVAE PER KILOGRAM		
YEAR	C.capitata	Anastrepha spp.	Other fruit fly families
1980	0.039	1.235	0.449
1981	0.047	1.596	0.369
1982*	0.010	7.512	0.410

* The last larval medfly detection on Mexican territory was in June,1982.

The increase in medfly larvae/kg. from 1980 to 1981, was due to a more directed sampling of primary hosts. The same sampling methodology in 1982 showed a 79% decrease in medfly infestation. The opposite happened with the Anastrepha species where infestation increased from 1980 on, due to the suspension of the aerial bait spray program.

Rainfall in Mexico and Guatemala during the months of May to September helped to reduce each year the medfly populations. Fig. 1 shows the effect of rainfall on medfly population during this season in the years 1980, 1981 and 1982. (Fig. 4)

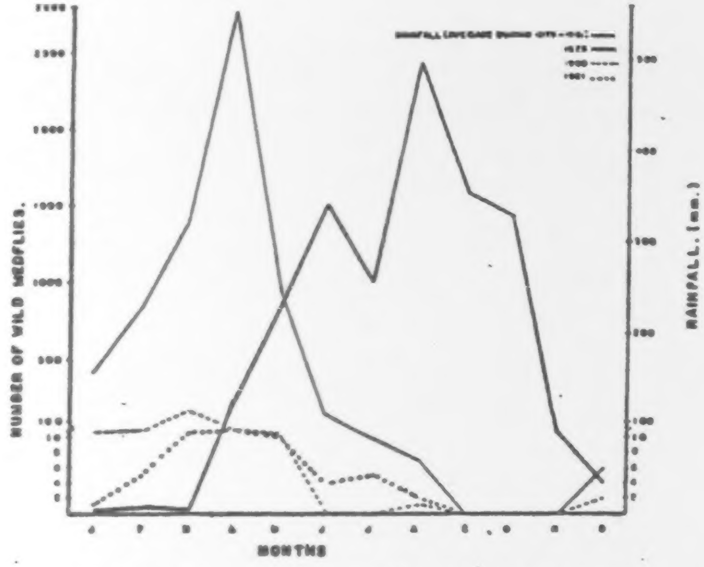

Figure 4 - Collateral effect of the rainfall on medfly populations in the Soconusco area, State of Chiapas, Mexico, in the years 1979, 1980 and 1981.

2.3 Eradication strategy

The eradication strategy that has been used successful in Mexico from 1980 to 1982, and that continues to be used for eradication in Guatemala, represents a new approach to fruit fly eradication.

Until now all fruit fly eradication programs, besides working at a much smaller scale, were carried out in ecological or geographical islands. In this specific case however, a strategy for eradication at a continental level had to be developed. Barriers and different control measures had to be integrated differently in each of the six zones into which all the area, where Medfly Program activities are carried out, is divided. (Fig. 7).

1) "Free Zone B": This area is the most removed from the front line of wild medfly populations, and is formed by all the rest of Mexico. Here a continous trapping program is carried out (25,000 traps checked twice a month), directed at all possible invasion routes of medfly and other fruitflies: all coastal areas, harbours, airports, tourist sites, and fruit growing areas. A special emergency program is available to react within 24 hours by aerial bait spray and to a detection in any part of this Free Zone B.

2) "Free Zone A": This zone which lies between the Free Zone B and the sterile fly release areas is formed by areas once declared free of medfly. An area is declared free of medfly after a period equivalent to three fly generations or 1800 day degrees above 10°C for egg, larval and pupal stage, - and 200 day degrees above 17°C for the premating adults, has passed without detecting a wild medfly larvae or adult in it. Trapping is more intensive, with one trap per km^2. The size of this area in Mexico is presently about 500,000 hectares.

3) "Quarantine Barrier": In this area which lies between the Free Zone A and the eradication zone, sterile fly releases are carriedout regularly and uniformely in spite of no wild medfly detections, to protect the Free Zone A from wild fly migration and a quarantine that can not be perfect under - existing conditions. A population of 300 sterile flies per hectare is maintained and wild fly detection is based on an intensive fruit sampling. In an area of approximately 100,000 hectares, 1500 kg. of fruit are collected - weekly.

Trapping at a low density (0.25 tr/km^2) is used to evaluate sterile fly dispersion and sterile fly population levels (Fig. 5). Any fly detected - analyzed in the identification laboratory, (Programa Moscamed, 1982b). Wild fly detections are treated immediately by very high density sterile fly releases (up to 5000 flies per hectare), and larval detections are previously ground sprayed with bait spray, followed again by high density sterile fly releases. Road station fumigation chambers for all the fruit for the national and international market are in this area.

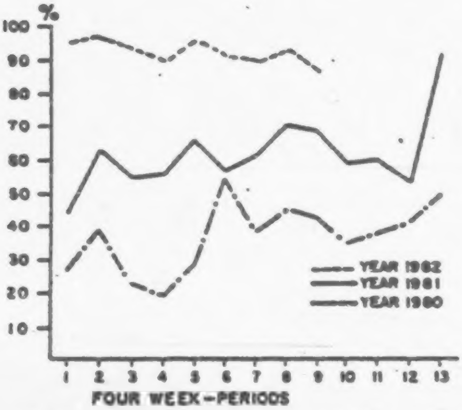

Figure 5 - Fluctuation throughout the year of the average percentage of Jackson traps with sterile fly detections from 1980 to 1982 in the Soconusco area, State of Chiapas, Mexico.

4) "Eradication Zone": In this area which lies between the quarantine barrier and the suppression zone, wild fly detections happen regularly. Sterile flies are released at approximately 1000 flies per hectare depending on the type of vegetation. Fruit sampling, trapping and spot treatments are similar as in the Quarantine Barrier. The size of this area, which depends heavily on sterile fly production is presently around 300,000 hectares (Fig. 6).

5) "Suppression Zone": This area lies between the Eradication Zone, and the area with established medfly populations. Wild population level are recorded mainly through trapping and some fruit sampling. Aerial bait spray is directed at all cuadrants with a higher population level to prepare the field for the sterile fly releases. Previously intensive communication compaigns are directed at the public in this zone to familiarize everybody with the activies of the program and to avoid any public outcry in relation to baitsprays.

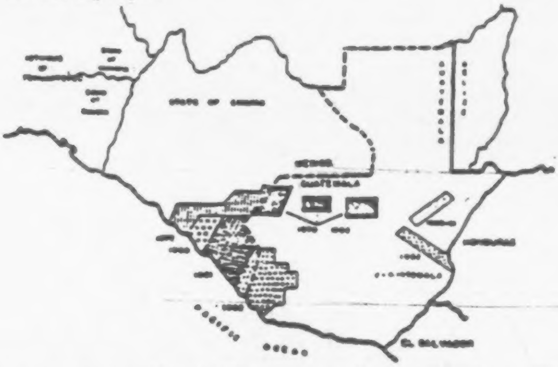

Figure 6 - Areas of sterile Mediterranean fruit fly from 1979 to 1982 in Mexico and Guatemala.

6) "Wild Medfly Zone": The areas next to the suppression zone (all the rest of Guatemala and Central America) are areas with established medfly populations under no control measures. A low density trapping is maintained to know medfly population fluctuation and distribution.

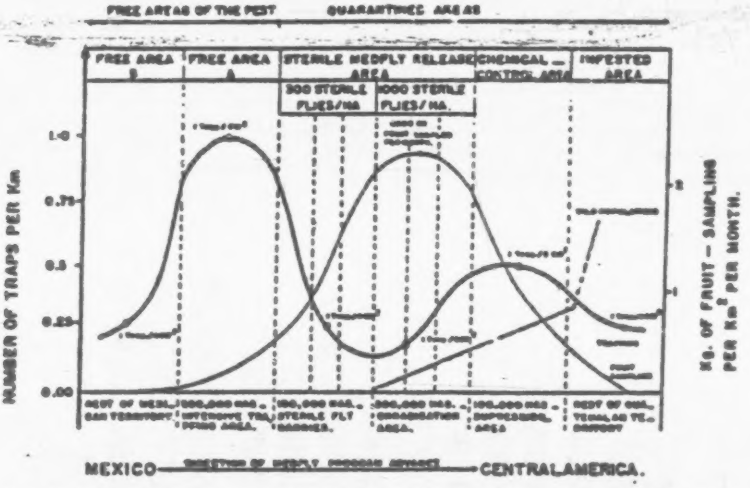

Figure 7 - Medfly program general strategy in Mexico and Guatemala from 1979 to 1982. Integration of different control measures in six contiguous working areas, in relation to gradual increase of medfly populations.

As new quadrants are declared free of medfly, these six zones are pushed to the south and east further into Guatemala, each changing their respective activities.

In Northern Guatemala, a barrier of sterile flies has been maintained for years to avoid the movement of the fly into the jungles and the peninsula of Yucatan. This preventive barrier will continue to hold the fly on this front, allowing in the meanwhile to continue the eradication on the western front.

2.4 The Metapa massrearing and sterilization laboratory

The presence of medfly on Mexican territory in 1977, accelerated the construction process of the biggest medfly laboratory in the world. In August 1980, the objective of producing 500 millions of sterile flies per week was reached (Fig. 8 and 9).

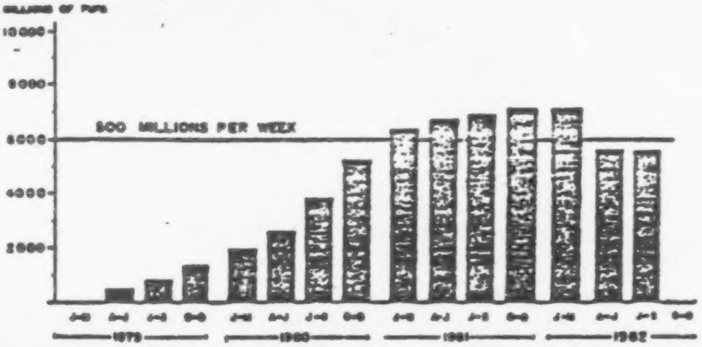

Fig. 8 - Trimestrial average medfly pupae production of the Metara massrearing and sterilization laboratory, State of Chiapas, Mexico, from 1979 to 1982.

The rythm of work in the laboratory was never decreased (365 days a year, 3 shift production) solving the problems that came along, adapting and improving the procedures of rearing and irradiation of the insect. Once the objective of producing 500 millions of pupae per week was reached, improvement of the insect quality, the rearing process and of the release methods were the next steps (Programa Moscamed, 1982). In fig. 10 and 11 the improvement in the percent of emerging and flying flies can be observed.

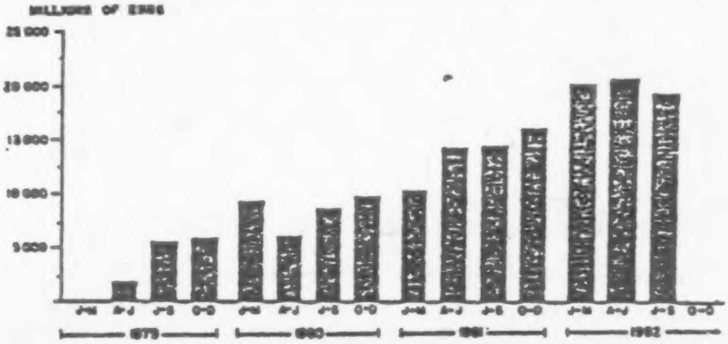

Fig. 9 - Trimestrial average medfly egg production of the Metapa massrearing and sterilization facility, Chiapas, Mexico, from 1979 to 1982.

During 1981, the average weekly production reached 58 millions of pupae, maintaining a percent of emergence that oscillated between 85 and 95 percent, and the percent of flying flies was maintained at an average of 70-80 percent (Fig. 10 and 11).

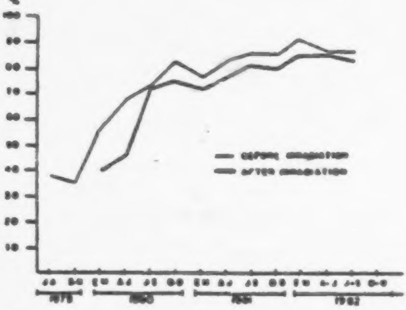

Fig. 10 - Trimestrial average percentage of flying flies before and after irradiation of the medfly produced at the Metapa massrearing and sterilization laboratory, Chiapas, Mexico, from 1979 to 1982.

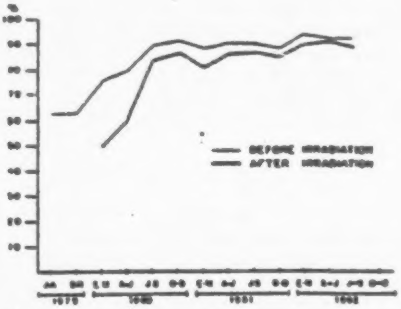

Fig. 11 - Trimestrial average percentage of adult emergence before and after irradiation of the medfly produced at the Metapa massrearing and sterilization laboratory, Chiapas, Mexico, from 1979 to 1982.

In 1982, the percent emergence and percent flying flies was maintained at a good level and the weight of the pupae reached over an average of 7 mg, the production standard set (Fig. 12). Field mating behaviour tests of the sterile fly indicated a good mating competitiveness in relation to the wild flies in the field (Zapien et al. 1982).

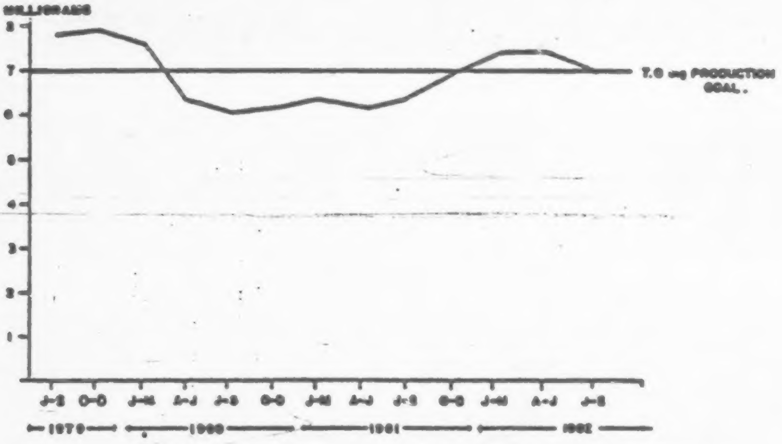

Fig. 12 - Trimestrial average weight of pupae produced at the Metapa massrearing and sterilization laboratory, Chiapas, Mexico, from 1979 to 1982.

2.5 Sterile medfly release

Once irradiated, the medfly pupa is sent to the packing laboratory for its subsequent release in the field. Three packing methods, "Chilled adults", "bags" and "Boxes", were tested; the "bags" resulting the most effective. 200 ml of pupae are placed in paper bags. Adults emerge after two days at temperatures between 21-24°C. The bags contain suffed paper to increase the area of lodging and food for the adults. Once 80% of the pupae have emerged, the bags are transported to the airplanes to be released in the field. Once out of the plane the bags are ripped open dispersing the flies.

The densities of sterile flies in the field (Fig. 13 improved greatly each year. Already since 1981 there were above 1000 flies/ha in the coffee area, while in the coastal area this density was reached by December 1981. The quantities of sterile flies for the Program in Mexico were sufficient and all additional quantities were sent as support to Guatemala and the United States (see fig. 14).

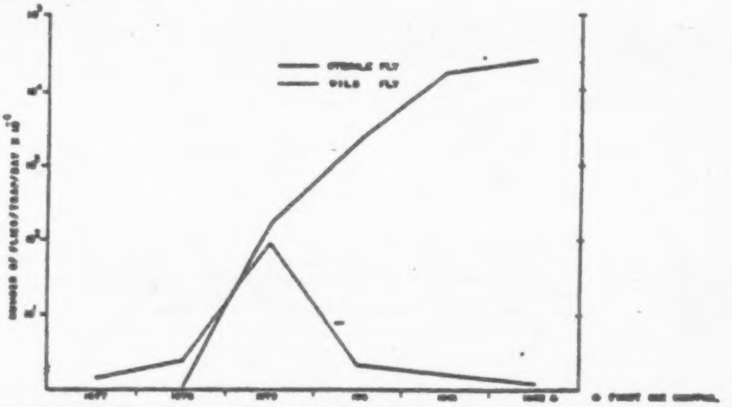

Fig. 13 - Annual fluctuation of F.T.D.(flies/trap/day of C. capitata from 1977 to 1982 (first six months), in the Soconusco area, State of Chiapas, Mexico.

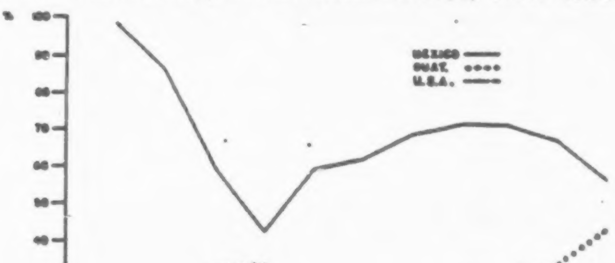

Fig. 14 - Trimestrial average percentage distribution of the pupal production of the Metapa massrearing and sterilization facility, Chiapas, Mexico, Guatemala and U.S.A. from 1980 to 1982.

A continuous production of good quality sterile flies and their release in the specific eradication areas were sufficient to reach the objective of the Program. This is demonstrated by the decrease of adult detections and of infestation levels in the fruits since the beginning of the eradication stage and in spite of the suspension of aerial bait sprays. To insure and evaluate the presence of the sterile fly in the field the number of sterile flies was constantly determined per unit of area. This index fluctuated from an average 0.4 sterile flies per trap per day in 1980, to 4.1 in 1982. (Fig. 13).

2.6 Continuity of the Program in Guatemala and Central America

Once the medfly has been declared eradicated from Mexico, since September 1982 , the production of the laboratory in Metapa has been used for eradication in the areas in Guatemala, bordering with Mexico (Programa Moscamed, 1982a).

Fig. 15 shows the present level of medfly population in the Mexico-Guatemala border area, based on adult fly detections of a four month period (from July to October 1982). According to the eradication strategy all Mexican territory lies in Free Zones A and B, the quarantine barries lies half on Mexican territory and the other half on Guatemalan territory. The rest of the fly release area corresponds to the present Eradication Zone. The Suppression Zone is formed by the quadrants with a higher population level (around 10 quadrants or 100,000 hectares) were aerial bait spray will be carried out stepwise, followed by an enlargement of the Eradication Zone including these quadrants with a suppressed population.

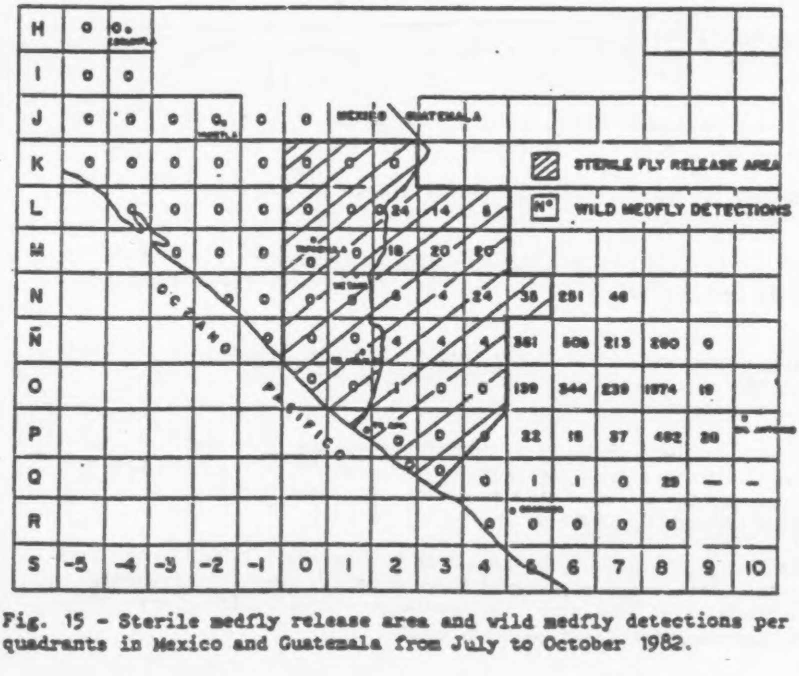

Fig. 15 - Sterile medfly release area and wild medfly detections per quadrants in Mexico and Guatemala from July to October 1982.

3. CONCLUSIONS

Many experiences have been accumulated in the six years of Medfly Program in Mexico and Guatemala, showing the effectiveness and even the efficiency of the sterile insect technique for large scale regional programs.- Many details still have to be improved, however, the basic technical knowhow is now available to implement such a program in any part of the world.

More important than technical aspects, is the organizational and administrative structure necessary to manage all the logistical problems involved in the day to day operation. However most important is the working - spirit, team work and will to succeed.

It is concluded that given the right social and political conditions, as well as an appropriate economical support, the long range goal of eradicating the medfly from all Central America is possible in the near future.

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ERADICATION OF THE MEDITERRANEAN FRUIT FLY FROM CENTRAL AMERICA AND PANAMA

LIST OF PARTICIPANTS

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E. F. KNIPLING	USDA
ROBERT RHODE	IAEA
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JESUS REYES	MOSCAMED - MEXICO
ROGER LANDAVERDE	OIRSA
RONALD ESTRADA	MOSCAMED - GUATEMALA
FRANZ HENTZE	MOSCAMED - GUATEMALA
JORGE ESCOBEDO	SANIDAD VEGETAL - GUATEMALA

Annex 3

December 4, 1984

TERMS OF REFERENCE

1. This study was requested by U.S. agricultural industry groups; the Assistant Subsecretaries of Guatemala, Mexico and the United States, as well as by the U. S. Senate Report 98-566. It has been decided that a single report in accordance with the U.S. Senate request will fulfill all of the needs.

2. The report should be addressed to the Administrator of APHIS-USDA for consolidation with a socio-political economic study based on your technical report.

3. The report should not address political boundaries but rather deal with all aspects of the technical requirements for conducting such a program including peripheral and important issues such as adquate training, public relations, etc.

4. Although an estimate of costs associated with the technical approach need not be included, recommendations that will relate to costs such as types/number of pesticide applications, number and location of sterile production facilities needed as well as production capability should be included.

5. It is recognized that there is always room for more research to streamline activities, however you should identify those areas where the major research thrust is needed which will have the most benefit to such a program.

6. Your recommendations, must include regulatory action to protect noninfested areas.

7. It is essential to include a recommendation based on technologies currently available to indicate if a program is technically feasible at this time.

8. It is requested that the report be brief and to the point so that it will be given adequate consideration. Addenda on pertinent items may be included for those that need additional information or guidance.

Annex 4

Map of Central America
and Panama

CARIBEAN SEA
PANAMA
NICARAGUA
COSTA RICA
HONDURAS
BELICE
EL SALVADOR
PACIFIC OCEAN
GUATEMALA
MEXICO
N
Scale
0 50 100 150 200 250 300 350
kilometers

Annex 5

BASIC PRINCIPLES OF THE STERILE INSECT TECHNIQUE AS APPLIED TO THE MEDFLY ERADICATION

by E. F. Knipling

INTRODUCTION

The sterile insect technique (SIT) has been employed to a greater extent for Medfly suppression than for any other insect pest, except for the screwworm fly. No effort will be made in this preliminary working paper to review the extensive research that has been conducted on this method. Also, the operational programs in which sterile fly releases have been employed for the eradication and containment of Medflies will not be reviewed. It might be said, however, that the results achieved both by experimentation and in operational programs have been difficult to evaluate. Many factors influence the success or failure of SIT for the eradication or containment of Medfly populations. While the basic principles involved in the application of sterile insect techniques are well understood by those engaged in the development or use of the technique, it seems desirable to examine the merits and limitations of the technique in some depth, as they apply to the Medfly.

The eradication of well established and high density populations of the Medfly by the use of SIT alone would be costly and perhaps impractical because the technique involves a game of numbers. The higher the natural populations, the larger the number of sterile insects that must be produced and liberated in the Medfly ecosystems. Conversely, however, if and where native fly populations are low and subject to environmental stresses, the technique employed alone may be a highly effective and economical method for eradication. Therefore, a good understanding of the size and distribution of fly populations and the seasonal dynamics and flight behavior of the Medfly is equally as important as an understanding of the principles of suppression.

In contrast with SIT, the effectiveness of insecticide bait spray applications is not insect density dependent. This proven method of Medfly eradication will cause essentially the same percentage control each application whether the fly populations are high or low. This means that in terms of the number of insects killed, the efficiency of insecticide applications diminishes as the populations decline. It may require as many or more insecticide applications to eliminate the last 1 percent of a population than was required to eliminate the first 99 percent.

The contrasting characteristics of SIT and insecticides as suppression measures offer the opportunity of undertaking practical Medfly eradication programs against high density populations, if the two methods are integrated concurrently or in sequence. The two techniques properly integrated could be practical for eradication when either method employed alone would be ineffective or unacceptable. For this reason, it is important to describe the characteristics, merits, and limitations of both methods of suppression and point out why and how to take full advantage of the merits of each technique in integrated programs.

It should be emphasized, however, that the availability of eradication tools is only one requirement in embarking on Medfly eradication programs. How and under what circumstances the tools are employed will be equally important in determining the degrees of success or failure. A pest population cannot be eradicated unless the total population is subjected to suppressive measures. This is axiomatic. It may be feasible to eliminate a pest from portions of an infested area and then institute a containment program. However, the flight range of the pest will govern the size of the area that should be subjected to eradicative efforts on a step-by-step basis. Insects, generally, have a much longer flight range than can be determined by available detection methods. If an area is subject to infiltration by substantial numbers of fertile mated females from adjacent high density uncontrolled populations, eradication cannot be achieved regardless of the number of sterile flies that might be released or how intensively insecticide applications might be made.

The Characteristics of Different Methods of Medfly Control

A number of methods might be employed to control the Medfly. However, three techniques most commonly employed are the application of insecticides, the release of sterile flies, and the use of cultural measures to limit the amount of host fruit that is available. It is important to understand the merits and limitations of the methods that might be used alone or when properly integrated. This is particularly true for the SIT because of the many variables that influence its effectiveness. The characteristics of the SIT, when employed alone, will be discussed in some depth. The characteristics of insecticide applications will also be discussed briefly, although they are generally well-known. The use of cultural measures to limit the amount of host fruit at strategic times and places could be an effective supplementary measure but will not be discussed in this report. Special consideration in this preliminary report will be given to the merits of integrating the use of insecticides and the release of sterile flies.

The Characteristics of SIT When Employed Alone

Basic Mechanism of Suppression Achieved by Sterile Fly Releases

If sterile and native fertile insects coexist in a natural environment and the sterile insects are equal to their native counterparts in all respects, the proportion of the native females that mate with sterile males will be the same as the ratio of sterile to native males in the population. Irradiated females are also sterile and, therefore, cannot contribute to reproduction. Native females that mate with released sterile males deposit sterile eggs. The proportion of a native female population that must mate with sterile males to prevent growth of the population will depend on the intrinsic rate of increase of females that reproduce. If conditions are favorable for populations to grow the ratio of effective sterile to native males may have to be higher that 10:1 to assure a decline in the native fly population. If conditions are unfavorable because of environmental stresses, an effective ratio as low as 1:1 may be adequate to start an accelerating decline in the population. What to expect from a sterile release program, therefore, involves a game of numbers that is greatly influenced by the quality of the insects released and the ecological conditions in Medfly ecosystems when releases are underway.

While the principles of suppression by the use of SIT is generally understood by those engaged in research or practical use of the technique, it seems desirable to present a theoretical suppression model that depicts the way the method works. The simple model shown in Table 1 is an adaptation of the original theoretical model used to describe the type of effect to expect from sterile fly releases for screwworm eradication.

A low population of 1,000 native flies in a given area is assumed for the first cycle. If uncontrolled, the population grows by 5-fold each cycle until it reaches a maximum density. The release of 9,000 sterile flies that are assumed to be fully competitive with the native flies, would achieve a 9:1 sterile (S) to fertile (F) ratio. Theoretically, 10 percent of the native female flies will mate with their counterparts and 90 percent will mate with the released steriles. If the normal increase for reproducing flies is 5-fold, the cycle 2 population would decline by half. The continued release of steriles during cycle 2 would then result in a S:F ratio of 18:1. This would accelerate the rate of decline in the native fly population. By cycle 4, the ratio of S:F flies would be so high that no fertile mating would be expected.

The increasing effectiveness of the technique as a target pest population declines is a unique feature of the SIT. In effect, it means that the lower a pest population the more efficient the methods becomes. All other control techniques commonly employed achieve essentially the same degree of control regardless of the number of insects present im the area of treatment.

The type of action achieved by the SIT means, however, that it is unlikely to be a practical method of control when the pest density is high. But it also means that it could be the most efficient system available when native insect populations are very low. It should be stressed that the ratio of S:F flies required to start an accelerating decline in the population depends on the intrinsic rate of increase of the pest if no control measures are applied. Under conditions unfavorable for reproduction due to environmental stresses, a pest population may become stabilized or be declining. Under such conditions, as previously noted, a S:F ratio as low as 1:1 may be adequate to achieve the accelerating rate of decline and eventually a progressively higher S:F ratio.

Table 1.--A theoretical model depicting the suppression of an insect population by the release of sterile insects

Fly Cycle	Uncontrolled population Native insects (both sexes)	Population subjected to the release of sterile insects					
		Native insects	Sterile insects	Ratio S:F	Reproducing insects		Progeny produced
					#	%	
1	1,000	1,000	9,000	9:1	100	10	500[2]
2	5,000	500	9,000	18:1	26.3	5.3	132
3	25,000[1]	132	9,000	68:1	1.9	1.4	10
4	25,000	10	9,000	900:1	<1	<1	<1

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[1] Assumed maximum density.

[2] It is assumed that 50 native females that mate to native males will each produce 10 adult progeny.

The Influence of Variables on the Efficiency of SIT

While it is helpful to understand the basic principles of insect suppression by the use of the sterile insect method, it is vital to keep in mind that many known and perhaps some unknown variables have negative effects on its effectiveness. No other methods of pest suppression is influenced by as many factors as is the SIT.

The hypothetical model is based on the assumption that the released sterile insects are fully competitive with the native insects in all respects and will inhibit reproduction proportioned to the ratio of S:F insects. Such effectiveness cannot be expected in actual sterile release programs, however. Colonized insects are seldom as vigorous as are the native insects. In the process of handling insects during the rearing, sterilization, and release operations, some insects are likely to be damaged. The exposure of insects to irradiation generally reduces their vigor and mating competitiveness. Colonized insects tend to develop genetic deficiencies and become less adapted to survive in the natural environment. The accumulative effects of these detrimental factors are such that perhaps five times or even more insects have to be released to compensate for their reduced competitiveness.

Another factor that will influence the effectiveness of sterile fly releases is the difficulty in operational programs to distribute flies proportional to the number of native flies in localized habitats. While the released flies will tend to move to favorable habitats, equitable distribution will be difficult to achieve and data on the number of released native flies captured in traps can be used to adjust release rates to assure reasonable, equitable distribution, but maximum efficiency of the released flies cannot be obtained because of the problems mentioned. Critical monitoring of native fly distribution, but maximum efficiency of the released flies cannot be obtained because of the problems mentioned.

Because of the many variables encountered in the conduct of Medfly eradication and containment programs, it would be judicious to provide for fly production capabilities that will permit the release of enough sterile flies to exceed the native fly populations by a factor of 50:1 or 100:1.

The adverse factors discussed can be critical and they place definite limitations on the feasibility of relying on sterile fly releases alone as an effective and practical means for eradicating Medfly populations. Yet, the technique can still play a vital role in such programs. Populations of Medflies are extremely variable in most areas. At times the flies exist in very low numbers in portions of the total infested area. In view of the great advances in rearing Medflies in large numbers and at low cost, it is more practical to further suppress or eliminate low-level populations by the release of sterile flies than by any other known method. As will be discussed later, the integration of sterile fly releases following the use of insecticides, offers the opportunity to make optimum use of the SIT because of its efficiency against low and widely scattered infestations and because of its safety from an ecological standpoint.

The Influence of Mating Behavior and Fly Movement on the Effectiveness of Sterile Fly Releases

The principles of suppression based on inhibition of reproduction are so different from methods like the use of insecticides which kill the insect that the results achieved during the early stages of a sterile release program are likely to be greatly underestimated. In the use of insecticides, progress can be measured and becomes immediately evident because of a drastic reduction in native fly populations. In contrast, for several fly cycles, there may be no tangible evidence based on native fly captures in traps that released sterile flies are performing their mission.

A reproducing fly population at any given time consists of adults, some of which have mated but others have not reached sexual maturity. Eggs, larvae, and pupae will be present in all stages of development. The sterile flies released during the first cycle will have no effect on the prior mated females or on the immature stages. The only immediate suppression effect will be against unmated females already in the population and those that emerge after fly releases have started. The degree that reproduction is inhibited for the unmated females will then depend on the effective S:F ratio that is maintained. Females that mated with fertile males prior to the releases and those that mate with fertile males despite the presence of sterile males, will continue to reproduce for their normal life span. All of the native males and the native females that mated with sterile or normal insects will remain in the population until they disappear due to natural causes. Under favorable environmental conditions enough prior mated females may be present during the first cycle of release to cause an increase in the native fly population during cycle 2. But, if the effective S:F ratio is high, a low percentage of the virgin females emerging during cycle 2 will mate with native males. However, whether or not they mated with native or sterile males, they will remain in the population until they die from natural causes. Under favorable conditions, some native male and female flies may survive for a month or longer. Therefore, trap capture data may continue to show the presence of large numbers of native flies for several cycles.

For reasons described under some conditions, native fly populations are likely to be higher during cycle 2 than they were during cycle 1 even if adequate numbers of sterile flies have been released. Also, because of the long life of the flies and continued reproduction of the females that were successful in mating with native males, the total native fly population during cycle 3 may be as high as it was during cycle 1. This can be expected even though a high proportion of unmated females that were present during cycles 1 and 2 could not reproduce because they mated with sterile males.

If a simulation model is developed that assigns realistic values to the various relevant parameters, it can be shown that under favorable conditions for reproduction and survival of native flies, a significant decline in the native fly population as measured by trapping data is not likely to become evident until cycle 3 or cycle 4. Thereafter, due to natural attrition and limited successful fertile matings by flies emerging after releases started, the native fly population will decline very dramatically during each succeeding cycle. It may require as many as 6 cycles or more, however, before native flies disappear even though reproduction by unmated females present may have been inhibited by as much as 95 to 98 percent during the first three cycles after releases began.

The point to be emphasized is that the elimination of native Medfly populations by the use of SIT alone takes time. If native fly capture data from surveillance traps are used as a measure of progress in achieving eradication, program managers will almost certainly underestimate the degree of progress during the early cycles. There is no way at present to determine if native fruit flies captured in traps have mated with normal or sterile males. Fruit infestation surveys do not provide sufficiently reliable data to determine the degree of progress where native fly populations are low.

The flight range of Medflies is another critical factor that will determine the results to expect from sterile fly releases in areas subject to the infiltration of substantial numbers of native flies from adjacent heavily infested areas. Under favorable conditions a single fertile female may produce as many as 10 to 20 adult progeny. These are likely to emerge over a period of about 2 weeks or perhaps longer and in a highly restricted habitat. As noted earlier, reproduction by prior mated females will not be inhibited regardless of the number of sterile males present. Also, as noted earlier, the first opportunity for sterile males to perform their mission is against virgin female progeny of reproducing flies.

To prevent the reestablishment of native fly populations in areas where eradication of the original population has been achieved or to prevent the spread of new infestations in areas adjacent to infested areas, a sterile fly population must be maintained at a level high enough to provide a reasonable assurance that the progeny of immigrant females cannot reestablish growing populations. Fortunately, considerable movement of ovipositing females and their progeny will occur before they become sexually mature. If the assumption is made that the progeny of one female will be reasonably well distributed in 1 ha, and a maximum of 5 native males per ha will accumulate within a week, the presence of enough sterile males to result in a S:F ratio on the order of 50:1 should provide reasonable assurance that incipient infestations resulting from single female immigrants will not get out of hand. Under the circumstances described, it would be necessary to release on the order of 500 sterile flies per ha per week or 50,000 per Km^2 per week.

While such "rule of thumb" estimates are likely to be in error by a substantial degree, they can, nevertheless, be useful as guidelines for planning purposes. A point might be reemphasized, however. Successful eradication of Medfly populations or maintenance of eradication are not likely to be achieved by the release of sterile flies regardless of the number released if the areas subjected to eradication efforts are small and vunerable to the immigration of large numbers of normal mated females throughout the release areas. Experience with many insects indicates that significant movement of insects generally occurs for much longer distances than can be determined by available detection methods.

The Characteristics of Insecticide Applications for Medfly Eradication

While there has been extensive experience in the use of insecticide bait sprays for Medfly eradication and the effectiveness of the method is well known, it seems desirable to briefly discuss the contrasting effects of the insecticide and SIT methods of suppression. As previously stated, the degree of control achieved by a given insecticide dosage and spray schedule is not pest density dependent. It is estimated that properly applied sprays will kill enough of a population of flies to inhibit reproduction by 98 percent during each cycle of application. Therefore, we can project the probable trend of a population subjected to eradication by the use of insecticides. For this purpose an initial population averaging 25,000 females per Km^2 per cycle is assumed. It is assumed also that the surviving flies will reproduce and increase 5-fold per cycle. The simple suppression mode is shown below:

Cycle	Flies Present (#)	Degree of Control (%)	Flies Surviving to Reproduce (#)	Adult Progeny (#)
1	25,000	98	500	2,500
2	2,500	98	50	250
3	250	98	5	25
4	25	98	0	0

The estimates for the hypothetical model indicate that under favorable Medfly conditions it would be necessary to apply sprays for four cycles to eliminate a moderate to high Medfly population. This is not inconsistent with practical experience. If three sprays are required during each cycle, it would be necessary to make 12 applications of insecticides. Like all methods of control, a number of factors will influence the results of a spray program. Fewer sprays might be required if sprays are timed to coincide with environmental conditions unfavorable for fly reproduction and survival.

A highly favorable characteristic of insecticide sprays is that reproduction is inhibited almost immediately. This is in strong contrast with the effects of sterile fly releases. While insecticides have no impact on immature stages under development, most of the adults will be killed before or soon after reaching sexual maturity. Insecticide sprays will kill most of the prior mated females, whereas sterile males will not prevent their reproduction.

Trap capture data obtained following the initiation of a spray program will be indicative of the degree of control achieved when related to pretreatment data. In contrast, as previously discussed, trap capture data obtained after initiating a sterile release program will indicate the relative number of native flies present before and after releases begin, but they will not be indicative of the degree that reproduction has been inhibited, until several Medfly cycles have been completed.

The hypothetical insecticide model projects an initial Medfly population of 25,000 flies per Km^2 per cycle. It would not be practical to attempt to eradicate populations this size by use of SIT. It should be pointed out, however, that as populations decline, insecticide sprays become increasingly inefficient in terms of numbers of insects killed. By cycle 3, only 1 percent of the number is killed compared with cycle 1. In contrast, it would require relatively few sterile flies to achieve overwhelming S:F ratios during cycles 3 and 4.

The contrasting merits and limitations of the sterility technique and the insecticide spray technique and how the two methods can be made highly complimentary when properly integrated, will be the next subject of discussion.

The Characteristics of Integrated Programs of Insecticide Applications and Sterile Fly Releases

When the effects of insecticide applications and sterile fly releases are critically analyzed, the advantages of integrating the two techniques for Medfly eradication are clearly indicated. Insecticide sprays achieve a high degree of control irrespective of the number of flies present. However, as may be noted in the table on page 12, it would still require sprays for one Medfly cycle to assure elimination of a population as low as 25 flies per Km^2.

On the other extreme, if a Medfly population were as high as 25,000 per Km^2 per Medfly cycle, and if the sterile release rate had to exceed the natural population by 100 times, the release of sterile flies for eradication would be impractical. It would necessitate the release of 2,500,000 sterile flies per Km^2 per cycle to meet this requirement a fly production capability of 125 billion flies each 3 to 4 weeks. While such estimates may not be totally realistic, they indicate the limitations of sterile fly releases alone in areas having well established and high density Medfly populations.

On the other hand, an initial fly population of 25,000 per Km^2 per week is reduced to an average of 1,000 per Km^2 by making several bait spray applications, a S:F ratio of 50:1 could be met by a production capability of 2.5 billion flies each 3 to 4 weeks. This may be well within the range of economic feasibility.

It is recognized that calculations of this nature are an oversimplification of practical programs involving complex and demanding operational problems. Eradication programs must be supported by intensive surveillance of Medfly conditions throughout an eradication area. The number of native insects existing per unit area and time in various portions of a generally infested area and the nature and amount of host fruit will no doubt govern the most appropriate suppressive measures and the number of sterile flies to release in different situations. The ratio of released to native flies captured in traps in various parts of the eradication area will suggest what adjustments in release rates should be made.

In many Medfly ecosystems high-fly densities will occur in certain area. A good understanding of the role that insecticide applications and sterile releases can play when the two techniques are integrated could lead to optimum efficiency in the eradication of Medfly populations. In general, several insecticide applications would be required in high density areas followed by the release of sterile flies for eradication. In moderate fly density areas a single insecticide application may be adequate to permit successful eradication by sterile fly releases. A single insecticide application would be highly complimentary for sterile releases. As noted, in discussing the principles of control by the SIT, a major factor limiting the initial efficiency of sterile releases is the presence of prior mated females in populations when sterile releases are started. A single thorough spray treatment is likely to eliminate at least 95 percent of the prior mated females and also reduce the accumulated native population. Therefore, one spray application would greatly compliment the effects of subsequent sterile releases. While no theoretical suppression model will be presented, it has been estimated that a single spray application will more than double the efficiency of a given sterile fly release rate during the first two cycles and reduce the time required for the elimination of populations by about 2 Medfly cycles.

For ecological reasons and perhaps also for reasons of economy in some situations, it would be desirable to undertake Medfly eradication programs with primary reliance on the sterile fly release technique and with secondary reliance on the use of insecticides.

Conceptually, a successful and efficient eradication program in an area large enough to minimize the influence of immigrant flies could be undertaken if full advantage is taken of the basic principles of suppression that are characteristic of sterile fly releases and insecticide applications. Based on native fly trap capture data and host fruit surveys, infested areas would be categorized as low, moderate, or high fly density areas. Sterile fly releases alone would be programmed for the moderate fly density areas; one spray followed by the release of sterile flies would be programmed for the high density areas. Such programs should be initiated during a period when native fly populations approach their normal low level; but when environmental conditions unfavorable for fly reproduction are likely to continue for 1 cycle or more.

The requirements in terms of fly release rates would be based on estimates of average numbers of flies per Km^2 per cycle in the different density areas. While it might be desirable to program releases so as to achieve sterile fly populations of 100:1 or more if releases are started during periods of considerable environmental stresses, substantially lower release rates may be adequate to assure an adequate S:F ratio by the time environmental conditions become favorable. The type of program envisioned would place primary reliance on the SIT for eradication, with the application of insecticides as an important supplementary suppressive measure. Such a program might be more economical and certainly would be more acceptable for environmental reasons than a program that relies primarily on insecticide applications and secondarily on the release of sterile flies. Regardless of the nature of an eradication program, Medfly conditions must be maintained to serve as a guide for optimum efficiency in the integration of available suppressive measures.

Annex 6

The following tables identify suggested eradication zones, eradication activities, and overall strategies and schedules by ecological regions in Central America and Panama.

The Central American region can be divided according to Medfly ecology regions as shown below.

ECOLOGICAL REGIONS IN CENTRAL AMERICA

	VEGETATION	PRIMARY HOSTS	CLIMATE	RAINFALL (mm/yr)	TEMPERATURES °C	ELEVATION (M)
1. Coastal lowlands		Citrus Caimito Guava Tropical Almond	tropical-wet	1000-4000	20-30	0-300
1.1 cultivated	annual crops (banana, cotton, sugarcane)					
1.2 noncultivated	tropical forest					
2. Jungle	tropical forest	Sapotaceae	tropical-wet	1500-2000	20-30	0-500
3. Coffee zone	coffee, cocoa, shade trees (ingas, etc.)	Coffee Citrus Caimito Roseapple	tropical to mountains	1500-4000	15-25	5000-2000
4. Continental Highlands	annual crops, maize, wheat, grass, etc,	Pears Apples Peaches	temperate	500-1000	15-25	500-2500
5. Mountains	pine forests		temperate	500-1000	10-20	2000

For eradication purposes we will consider the following three regions (No Medfly in mountains)

1. Coastal lowlands and continental highlands
2. Jungle
3. Coffee

The region will also be divided according to the kind of activities that will be carried out in five working areas within each eradication area.

AREA	MAIN ACTIVITIES
Pre-eradication areas	Trapping, host survey
Eradication area	Chemical control, sterile fly releases at high densities, fruit sampling
Protected area	Sterile fly releases at low densities, fruit sampling
Buffer area	Very intensive trapping, chemical control in reinfestions outbreaks
Eradicated area	Extensive trapping and contingency plan in cases of outbreaks

Following is an indication of the intensity of eradication activities, estimates of infested and noninfested ecological areas, and a map of Central America showing ecological zones and eradication areas.

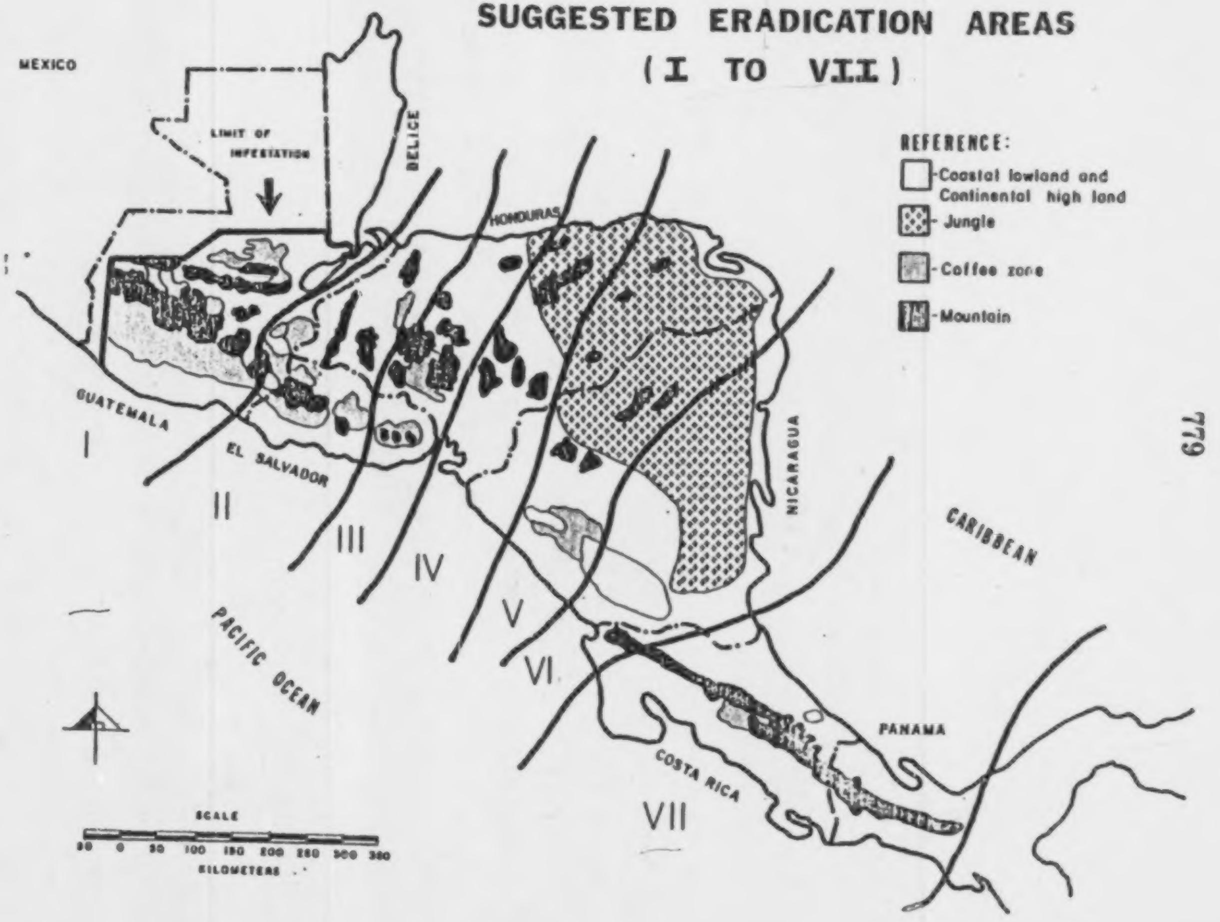
INTENSITY OF ACTIVITIES PER KM^2 BY ECOLOGICAL ZONE

WORKING AREA	DETECTION			ERADICATION
	Trapping No. trap/km^2	Fruit Sampling kg/wk/km^2	# Locations	SIT No. sterile per wk/km
		COASTAL LOWLANDS AND CONTINENTAL HIGHLANDS		
		Estimated area = 170,000 km^2		
PRE-ERADICATION	1/10	0	0	0
ERADICATION				
Chemical	1/3	0.6 - 0.8	1/4 - 1/6	0
SIT	1/4	0.6 - 0.8	1/4 - 1/6	20,000-30,000
Containment	1/4	0.6 - 0.8	1/4 - 1/6	4,000-6,000
POST-ERADICATION	1/2	CONTINGENCY PLAN		
		Jungle		
		Estimated area = 142,000 km^2		
PRE-ERADICATION	1/8	0	0	0
ERADICATION				
Chemical	1/2	0.3 - 0.5	1/5 - 1/8	0
SIT	1/3	0.3 - 0.5	1/5 - 1/8	30,000-50,000
Containment	1/3	0.3 - 0.5	1/5 - 1/8	6,000-10,000
POST-ERADICATION	1/1	CONTINGENCY PLAN		
		COFFEE		
		Estimated area = 33,000 km^2		
PRE-ERADICATION	1/4	0	0	0
ERADICATION				
Chemical	1/1	0.2 - 0.4	1/3 - 1/4	0
SIT	1/2	0.2 - 0.4	1/3 - 1/4	50,000-100,000
Containment	1/2	0.2 - 0.4	1/3 - 1/4	10,000-20,000

ESTIMATED MEDFLY INFESTED AND NONINFESTED AREA BY ECOLOGICAL ZONES

Infested area	Km^2	Percent of Total	Percent of Infested Area
Coffee zone	33,000	7	10
Jungle	142,000	29	40
Coastal lowlands and Continental highlands	175,000	35	50
Sub-Total	350,000	71	
Noninfested area			
Mountains	45,000	9	
Panama (95%)	72,000	14	
Peten (Guatemala)	30,000	6	
Sub-Total	147,000	29	
TOTAL	497,000	100	

SUGGESTED ERADICATION AREAS (I TO VII)


MEXICO
LIMIT OF INFESTATION
BELICE
HONDURAS
GUATEMALA
EL SALVADOR
NICARAGUA
COSTA RICA
PANAMA
CARIBBEAN
PACIFIC OCEAN
I
II
III
IV
V
VI
VII
REFERENCE:
☐ -Coastal lowland and Continental high land
▨ - Jungle
▨ -Coffee zone
▨ -Mountain
SCALE
50 0 50 100 150 200 250 300 350
KILOMETERS

Annex 7

RESEARCH NEEDS

Research has been conducted on the Medfly by investigators in many countries. The general nature of the pest is generally well understood. However, its biology and behavior are influenced by ecological conditions such as the kind and abundance of plant hosts, weather patterns, topography and other factors. These variables also influence the efficiency of various methods of Medfly control. Consequently, there is a continuing need for research to support eradication and containment programs wherever the pest has become established. This is particularly true in Southern Mexico and Central America because of the variable ecological conditions in this region.

Several organizations and study panels have considered the research needs on the Medfly in Central America and scientists and pest managers engaged in various aspects of the Medfly problem have made recommendations on problems that require investigations in support of eradication and containment programs in the Central American region.

The research needs can be classified into three rather broad categories: (1) ecological investigations, (2) detection and survey methods, and (3) improvements in control technology.

Ecological Investigations

Medfly populations in Central America can be characterized as extremely variable from area to area and from season to season. This is due in large measure because of seasonal changes in weather patterns, which influence the amount and nature of the host fruits. There is also varied topography which influences the life history of the pest and complicates control methods. One of the most distinctive characteristics of the Medfly problem in Central America is the fluctuations in abundance of Medflies during the rainy and dry seasons. High populations that develop during the dry season decline drastically with the onset of the rainy season. There is evidence that the factors causing the declines in native populations also affect the length of life of sterile flies that are released for Medfly suppression.

A good understanding of the causes of the decline in Medfly abundance during the rainy season could lead to more effective use of available control methods or suggest other methods of control. Therefore, research to determine the causes for population changes during the transition from the dry to the rainy season and the transition from the rainy to the dry season is needed. The degree of change should be investigated in relation to the nature and amount of host fruits, topography, kinds and numbers of natural enemies and other possible influencing factors. Efforts should be made to determine if the reasons for population changes are due to influences on the rate of reproduction and survival of the adult stage or on the eggs, larvae and pupae. It would be equally important to accurately determine the influence of rainy and dry seasons on survival of sterile flies that are released. If the mortality rate of adult flies is high before the males become sexually mature (and this effect applies to both native and sterile flies), a delay in the release of steriles for 3 to 4 days might more than double effectiveness of sterile releases. This is just one example of the potential benefits of research on the ecological aspects.

There is also a need for more precise information on the rate of growth of Medfly populations during the favorable season. The influence of the type and amount of host fruit, topography (elevation) and other factors should be investigated. If areas and habitats where Medflies are most likely to increase to high levels can be predicted in advance, this would greatly facilitate optimum use of available control methods. The number of sterile flies that must be released to prevent an increase in native fly populations or to cause declines in such populations depends on the intrinsic rate of increase in native fly populations in the absence of sterile releases.

Information on the dynamics of native fly populations in various habitats that can be used as a guide for optimum applications of sprays, and/or the release of sterile flies during the various Medfly cycles could greatly increase the efficiency and cost of eradication or containment programs.

Research on Detection Methods

The degree of success and the costs of Medfly eradication programs depend to a large extent on the capability of detecting if and where Medfly infestations continue to persist during the final phases of eradicative efforts. Also, the ability to detect reinfestations in eradicated areas or detect new infestations in new areas before the flies increase to high numbers and become more widespread is a critical problem in the conduct of Medfly eradication and containment programs. Likewise, during the early stages of eradication the ability to determine how abundant flies are in various habitats is important in the planning and execution of eradication programs. The abundance and rates of growth or declines in native fly populations will determine the number of sprays that may be required or the number of sterile flies that must be released.

A problem during operations involving use of the sterile fly technique, is to accurately determine the ratio of sterile to native flies that is being achieved in various native fly habitats in the area under eradication. Such information may give some indication of the effects of the sterile releases.

When Medfly populations reach low levels during final stages of eradication programs the detection of continuing infestations by fruit examination and cutting is not only costly but it is not a highly sensitive detection method. Therefore, Medfly detection is largely dependent on traps using trimedlure as the attractant. While this attractant has been an indispensible tool in eradication programs, there is an urgent need for more effective and/or practical means of determining the presence or absence of Medfly reproduction in areas under eradication or areas subject to the reinvasion of the pest. There is also a need for more accurately determining how many Medflies are present in various habitats where eradication is to be undertaken.

This need might be met by continuing the search for new and more effective synthetic Medfly attractants and/or by improving attractant formulations and trapping devices. Researchers have also made progress on pheromones produced by the fly that are used for sexual communications. The identification and synthesis of the active components that are responsible for the attraction of females to the males and vice versa could provide new and much more sensitive means of determining where Medfly infestations exist and where flies are absent. Advances in this area could also lead to new and effective methods of control or eradication.

Another problem related to detection methods is the difficulty of positively distinguishing native flies from sterile flies captured in survey traps. The ratio of sterile to native flies captured in traps is currently used to monitor progress in the suppression of native fly populations by the sterile fly technique. This is a costly phase of operations and is subject to error because of the difficulty in distinguishing the released and native flies. The discovery of new chemicals for marking purposes or more effective procedures could lead to the objective. Also, the discovery of genetic mutations that could serve as genetic markers that would be readily detected on fly strains to be released might increase the efficiency of eradication programs.

While the information on the number of native flies captured and the ratio of sterile to native flies captured in traps is currently used as an index of results, such data do not indicate the proportions of the native females that mate with sterile and native males during the early cycles after releases are started. Thus, there is no way at present to determine how competitive the sterile males are under natural conditions. Research needs to be conducted on ways of capturing enough native female flies to determine the degree that reproduction is inhibited by sterile fly releases from the initiation of a release program.

Research on Improvements in Medfly Control Technology

As noted, the biology, behavior, and population trends of the Medfly are influenced by ecological and other factors that vary greatly in different parts of the world where the pest has become established. These variables in turn influence the efficiency of control measures that may have been developed in areas other than where eradication programs are to be undertaken. Consequently, research on the evaluation of known control techniques is necessary in regions where eradication or suppression programs are contemplated or underway.

Medfly suppression currently relies primarily on the use of insecticide sprays and the release of sterile flies. Some of the more important research needs to reduce costs and also increase the effectiveness of these two techniques will be outlined.

1. **New and Improved Insecticide Formulations and Methods of Application**

While sprays available for Medfly control are highly effective, there are certain objections to their use, particularly the corrosive effects of malathion on metals as used in the formulations. Research on new insecticides and formulations that may overcome this objection should continue with provisions for evaluation under Central America conditions.

A matter of major concern over the continued use of only one insecticide for the control of an insect pest is the possibility that strains of the insect will become resistant to the insecticide employed. This is a critical matter for a wide range of insects and insecticides. Research on alternative insecticides that can be used in the event of such emergency should receive high priority.

Another major concern in the use of insecticides is the possible environmental hazards associated with their use. This is a matter of utmost concern when insecticide sprays are applied by air in residential areas. Possible risks can be alleviated if sprays are sufficiently effective for Medfly eradication when applied with ground equipment. The effectiveness of sprays applied in this manner is likely to vary depending on the type of host trees and other factors. However, the development of effective ground sprays is one of the most urgent research needs in support of Medfly eradication and containment programs.

2. **Improving the Quality and Competitiveness of Sterile Medflies**

It is known that a number of factors influence the vigor and competitiveness of Medflies reared and released in Medfly eradication programs. These are discussed in the report on Principles of Medfly Suppression by the Sterile Insect Technique. The accumulative effect of the several known factors that prevent maximum performance by sterile flies may require the release of from 5 to 10 times the number that would be necessary if the flies were equal to native flies in all respects. Research on improved rearing media and the best methods of handling the immature stages during the rearing process and in the transportation of pupae or flies to release areas, could greatly increase the efficiency of the sterile flies.

As noted in discussing research on the ecology of Medflies, there seems to be a high mortality of native flies during rainy seasons. The same mortality factors may be at least as great in reducing survival of released sterile flies. Research on the most effective time to release sterile flies after emergence could be of particular benefit. The efficiency of sterile releases might be increased several fold by reducing the time for excessive natural mortality to occur in the interim between the time of release and the time they become sexually mature. Field release trials would be necessary to determine the advantages, if any, in delaying the time for fly releases.

3. Research on the Optimum Use of Insecticide Sprays and Sterile Fly Releases in Integrated Programs

It was pointed out in discussing the principles of Medfly suppression by the use of sterile insects and insecticide sprays that there are theoretical advantages to the integration of the two techniques of control. Field investigations, involving the use of different numbers of spray treatments and different sterile fly release rates in relation to the density of Medfly populations will be necessary to determine the most effective and economical way to integrate these two methods of suppression.

4. Research on the Release of Male Flies Only

Investigations have demonstrated that it is possible by genetic manipulations to produce only male flies in the rearing process. Factors lethal to developing immature female progeny will accomplish this objective. One of the factors involves susceptibility of the female but not the male progeny to insecticides such as malathion. However, this method would be unacceptable because of the danger of inadvertently introducing insecticide resistant genes into natural popualtions. However, a similar technique involving chemicals that would pose no risk of introducing insecticide resistant genes into natural populations should be acceptable. If males only could be reared this would reduce by almost one-half the costs of rearing and distributing sterile flies. Such potential saving would justify extensive research on suitable methods. While research on this problem is underway by investigators in several laboratories, it would be necessary to fully evaluate the performance of any promising strains under conditions where they might be used.

An alternative to the separation of sexes in the larval stage would be to separate male and female pupae that differ in color. Such genetic markings have been found that are linked to male or female pupae, which will permit mechanical separation of the sexes.

Research is needed along two lines to determine if the release of males only will increase the performance of the males sterility technique. It is possible that sterile males released alone will disperse more widely or uniformly in native fly habitats if sterile females are not present. If males only are at least equally effective the logistic problems associated with the transportation and release of sterile flies could be reduced if only half as many flies need to be handled.

The possibility also exists that the release of male flies in one area and the release of female flies in separate areas would have comparable suppressive effects if the sterile to fertile fly ratios are high. Little is known about the influence of female releases in sterile fly programs. The potential savings in costs and possibly greater efficiency would justify field evaluations in Central America of any such genetic strains that might be developed by collaborating scientists.

E. F. Knipling
December, 1984

IV. Social, Political, and Economic Findings

IV.A. Country-by-Country Reports

To explore the political, social, and economic feasibility of Medfly eradication in Central America and Panama, interviews were conducted with key agricultural officials in each country.

The review team agreed on an outline in advance and all discussions took the same initial approach. The discussions started with an overview of the Medfly problem. Then, the draft technical report was summarized, with particular attention given to potential eradication program configurations and resource requirements. Finally, the evolution of the task group's assignment was explained: who had requested the feasibility study, how it was to be developed, and its potential uses. The team then asked the agricultural officials to discuss their country's position on the program concept, security requirements, resource availability, attitudes of their people towards the problem, and timing.

The following is a summary of the interviews in each country:

Panama:

The interview with the Minister and Vice-Minister took place in the city of Anton on January 15.

Panama officials support the concept of Medfly eradication. They stand ready to help in any way possible. Economic resources are limited. In addition to limited financial support, Panama's program contributions would take the form of utilization of the present infrastructure, communications network, public relations assistance, offices, and training facilities.

According to the Minister, the results of trapping efforts indicated that the Medfly presently infests one Panamanian Province (Chiriqui). Infestation levels are low and have not affected exports in a major way. The President would like to expand production of tropical fruits for export, however, and Medfly eradication would assist in this initiative. The Panamanian Government owns 2,100 hectares presently under citrus cultivation. Medfly trapping activities are underway in the melon producing areas.

The Minister advised the team that the sterile fly barrier should be positioned in Darien Province if it is to be of maximum benefit to Panama and easiest to maintain. A sterile fly production facility site can be provided in a location which will minimize program logistical difficulties. Facilities for both the projected screwworm and Medfly eradication programs can be placed near the international airport.

The Panamanians suggested beginning the eradication program simultaneously in Panama and Guatemala, moving toward linkage at a central point.

Aircraft overflight and pesticide dispersal should not be a problem in Panama. The projected screwworm program had similar concerns. If the pest distribution estimates are accurate, only a portion of the country would be affected.

IV.A. Country-by-Country Reports

Costa Rica:

The team visited with the Minister of Agriculture and the Chief of Plant Protection in the Minister's office in San Jose on January 16.

Costa Rica in the past has worked toward solution of the Medfly problem. The most recent comprehensive survey was done in 1973 and concluded that 10,000 square kilometers were infested. The Ministry supports the general concept of Medfly eradication. They are more than willing to enter into the detailed technical discussions necessary to develop precise estimates of resource requirements. At that time, it would be possible to incorporate this initiative into the agriculture planning and budgeting process.

Clearly, according to Costa Rican officials, it would be simpler if Costa Rica could make inkind contributions to a Medfly eradication project. Technicians and some equipment could be furnished through other ongoing agricultural programs. Although land is not readily available, a production plant site can be found. Direct monetary contributions would be difficult, but Costa Rica would be pleased to explain its needs to international organizations or other potential funding sources.

Discussions revealed that aerial pesticide dispersal may be complicated in Costa Rica. Regulations were promulgated recently which will have to be reviewed in view of the Medfly need. This facet will have to be studied in detail.

There are many organized agricultural groups which could be enlisted to promote and support Medfly eradication. Regional and lower levels of government could also be counted on for support, because they will recognize the potential social benefits. Although Medfly eradication is considered important, there are other agricultural sector needs competing for funds and attention.

The regional approach should be emphasized. There are now solid technical communications between Costa Rica and Nicaragua. Agricultural programs are unique in their desirability to all governments and provide an avenue for effective cooperation. The Minister indicated that the question of whether to begin a program in both Panama and Guatemala should be decided on the basis of costs and technical merits.

Nicaragua:

The Vice-Minister for Agriculture and his legal and technical advisors met with the task force in Managua on January 17.

Nicaragua supports a regional cooperative approach to the Medfly problem. The Vice-Minister believes that the country could benefit significantly from such a project; the Ministry is prepared to study the plans and determine what can be done to help.

It was indicated that there are several areas where a Nicaraguan contribution is possible. Technical facilities and human resources can be made available to eradicate any pest harming harvests or fruits. The legal aspects are also complex and Nicaragua indicated a willingness to work towards solutions to these problems. The Ministry can help with organization and communications at the regional and local levels. A direct monetary contribution does not appear feasible at this point.

Nicaraguan agricultural priorities at present are, first, to develop basic grain production necessary to feed the people. The second priority is to expand and diversify agricultural production for exports to meet needs for capital. The Medfly problem appears to fit into the second priority category.

Benefits from Medfly eradication in Nicaragua could be expected to include increased export production capability. For example, this pest has virtually eliminated Nicaraguan capacity to export tangerines. Interest and concern was expressed regarding the ethylene dibromide situation and any impact it may have on exports, particularly mangoes. Higher citrus prices internally were attributed to Medfly. Immediate internal economic benefits would appear feasible following Medfly eradication. Nicaragua must be included for a regional eradication effort to succeed.

All facilities can be provided for aerial applications. The Nicaraguan officials indicated they (Nicaragua) will do everything they can to ensure that problems do not occur. However, details of overflights and application schedules will have to be arranged through the Defense Ministry.

The Ministry proposed a demonstration project in Carazo to generate increased Nicaraguan involvement in Medfly. The objective would be to prove benefits of eradication to the farmers. OIRSA would spearhead the pilot work and much could be learned to assist in the regional program. Nicaragua also would make use of any printed information available on the Medfly eradication program.

The Nicaraguans viewed the idea of beginning eradication in both Panama and Guatemala as a good one. The key factor, they noted, is to begin a program as soon as possible.

El Salvador:

The Minister spoke with the review team in his office on the morning of January 18.

The El Salvadoran officials recognized the necessity for a regional approach to Medfly eradication and offered cooperation. Close coordination through OIRSA would be required to ensure adequate training of Salvadoran quarantine enforcement personnel.

The Ministry officials indicated they must analyze the total needs of agriculture and evaluate the relationships of Medfly eradication. The Ministry said there are three key objectives in El Salvador's agricultural programs: to develop food sources for the people, to broaden and diversify export crops, and to protect the natural resources. All projects have high priority; Medfly eradication appears to fit into the second category.

There is no present possibility of dollar funding from within the Ministry. However, there is available a structure of technicians and support forces. Most outside funds are going into agrarian reform. There are serious limits on travel and training funds, but these may be overcome in the future. One initiative to be explored is a reduction in the overall number of Ministry activities, which could serve to increase the effectiveness of those which remain.

The discussions revealed that needs for aerial dispersal of chemicals and sterile flies must be analyzed. There are potential problems with this aspect of the program, just as with the screwworm proposal. El Salvador, however, accepts the responsibility for the security of the aerial activities. The Minister was confident that any difficulties would be overcome.

The Salvadoran Ministry appeared quite willing to work with anyone to develop cost/benefit information. The Minister believes that Medfly eradication would be an important contribution to the effort to diversify agricultural production. The program would be welcomed in El Salvador and contributions would be provided at the highest level possible.

Honduras:

The review team spoke with the Minister of Agriculture and his technical advisors in a session at the Ministry on January 21.

The Honduran officials noted that they have been interested in the possibility of Medfly eradication for some time. The regional approach, particularly if spearheaded by OIRSA, would benefit all the countries and demonstrate the possibilities for agricultural cooperation. Heavy infestations of Medfly are present in Honduras in oranges, grapefruit, sour oranges, and tangerines.

The Ministry officials stated that OIRSA seems fully capable of leading the eradication effort. The organization has good relationships with all participants. No single State could fully support such a project within its borders, but the provision of people, materials, communications, transportation, and production facility sites could be accomplished.

Honduras stands behind the OIRSA's general initiative in plant health activities. They need more detailed plans to review before firm resource commitments can be made. They indicated this project should begin as quickly as possible, because delay can only result in higher costs.

Discussions revealed that public and private plant sanitary activities in Honduras would benefit from Medfly eradication. Decreased production costs, increased availability of fruit for export, more goods available in material markets, and expansion in areas of cultivation are potential consequences of effective elimination of this pest.

Medfly also affects vegetables--losses could be expected to decline in that area as well. If demand exists for Honduran products, Medfly eradication could place the country in a better competitive position.

Honduran authorities expressed the belief that plant and animal health activities, particularly those which are regulatory in nature, have not received sufficient international attention. They stated that OIRSA may be helpful in linking Medfly eradication to other problems such as screwworm, ticks, or citrus canker. Stronger support now in this area will help Honduras avoid problems later.

The Hondurans indicated that security may be a major problem in some phases of the program. OIRSA coordination should minimize the difficulties. It may be possible to use the same airplanes to fly across several countries.

The Minister noted that the Medfly problem must be placed in the context of other Honduran agricultural problems. Resources are limited and care should be taken to build realistic estimates of needs.

Either strategy for program operations (begin from Guatemala or start in Panama at the same time) is acceptable to Honduras, but speed of eradication is a key factor.

Honduras has a structure which can support this program, but it must be strengthened. The Hondurans are prepared to work cooperatively toward the eradication objectives. If properly coordinated, they believe such a project has a good chance for success.

Guatemala:

The Minister and Vice-Minister and several advisors were interviewed by the review team at the Ministry building on January 22.

The Minister indicated serious interest in maintaining cooperative programs with other countries. He voiced concern about the present economic situation in Mexico, Central America, and Panama. Despite these problems, every effort should be made to support programs such as regional Medfly eradication.

A Ministry official indicated that eradication into Central America had been a subject for discussion for some time. The present program has demonstrated that international cooperation is possible and that Medfly technical procedures present a feasible method to achieve eradication.

The Guatemalans understand the two alternative approaches to Medfly eradication. Resources are the limiting factor. The interest is there.

Various factors have led most countries in Central America toward agricultural diversification. Many of the potential new products are susceptible to the Medfly. According to Guatemalan officials, therefore, movement restrictions become a serious obstacle to economic improvement. The officials also noted that such progress is also supported by the Caribbean Basin Initiative of the United States.

The Guatemalans are well aware that intensive aerial spray programs can create environmental problems—if a Medfly program goes forward, they urge that effort be made to minimize the necessity for pesticide application from the air.

The Minister indicated a willingness to explore the utilization of the present Guatemalan sterile fly production facility in a regional program. There is a need in Guatemala also to combat other indigenous fruit flies. The Guatemalans had believed that the facility would be available for this use. He stated, however, that regional cooperation is important and serious consideration will be given to further Medfly production.

Mexico:

On January 24, 1985, Adolfo Villacorta and G. Gregor Rohwer met with the following officials of Mexico: Ing. Federico Cuanalo de la Cerda, Subsecretario de Agricultura y Operaciones; Dr. Ramon Claveran Alonzo, Director General del Instituto Nacional de Investigaciones Agricolas; and Dr. Moises Teliz Ortiz, Director General de Sanidad Vegetal, in the Hotel El Dorado in Guatemala City. Adolfo Villacorta briefly explained the mission of the review team and asked for their reaction. Mexican officials indicated their support for the program and stated that it should be conducted simultaneously with the control of the Mexican fruit fly (Mexfly). The team expressed the joint interest of APHIS, Plant Protection and Quarantine, USDA, and Mexico in procedures to control the Mexfly, but expressed the belief that proposals for assistance in funding the Medfly activity would not include Mexfly. The team asked if Mexico would continue to offer financial assistance and the use of the sterile production facility at Metapa until eradication was achieved, and was advised that Mexico plans to maintain funding assistance at the present level unless reversals in their economy, related mainly to the value of oil, take place. In any event, the Mexican officials indicated their country would continue funding to the extent possible because of the importance of the program to Mexico. They also stated that the Metapa facility would continue to produce sterile Medflies for use in the program until the Medfly was eradicated from Central America and Panama.

The Mexicans expressed strong interest in participating with other countries in this regional pest eradication program.

List of Individuals Contacted

Appendix 2

Committee Members - Social, Political, and Economic Review

Dean Saunders, Agricultural Assistant to Senator Lawton Chiles of the State of Florida.

Dean Edward Buchinger of the Agricultural Division, Irvine Company, Irvine, California.

Mario A. Vaughan, Regional Plant Protection Officer, FAO Regional Office for Latin America and the Caribbean, Santiago, Chile.

Antonio A. Villacorta, Executive Director, Organismo Internacional Regional de Sanidad Agropecuaria, San Salvador, El Salvador.

David Gradick, Administrative Management, Animal and Plant Health Inspection Service, U.S. Department of Agriculture, Hyattsville, Maryland.

G. Gregor Rohwer, Assistant Deputy Administrator, International Programs, Plant Protection and Quarantine, Animal and Plant Health Inspection Service, U.S. Department of Agriculture, Washington, DC.

List of Government Officials Visited by Country

Panama:

Ariel Barnett, Minister of Agricultural Development

Hirisnel Sucre, Vice-Minister of Agricultural Development

Jose del Rosario Concha, Plant Health Director

Damaris Chea, Technical Secretary

Alberto Saenz, Advisor to Agricultural Enterprises

Adan Castillo, Advisor to the Ministry

Cayo Tulio Rodriguez, Assistant to the Vice Minister

Lionel A. Taen Suarez, Representative of OIRSA in Panama

Guisela Tapia de Rangel, In Charge of Plant health for OIRSA in Panama

John H. Wyss, Aftosa Program, USDA, Colombia

List of Individuals Contacted

Costa Rica:

Carlos Manuel Rojas Lopez, Minister of Agriculture and Livestock

Oscar Fonseca Rojas, Vice Minister of Agriculture and Livestock

Juan Jose May, Plant Health Director

Evaristo Morales, Representative of OIRSA in Costa Rica

Max Bowser, Agricultural Attache, American Embassy, Costa Rica

Nicaragua:

Eduardo Holmann Chamorro, Vice Minister, General Directorate of Agriculture

Edgard Vargas, Director of Sugar Department

Danilo Godoy Cabrera, Plant Health Director

Maria Teresa Lugo, In Charge of Multilateral Collaboration

Oscar Saravia, Legal Advisor MIDINRA

Orlando Astacio, In Charge of Plant Health for OIRSA in Nicaragua

Mike Donovan, Economic Officer, American Embassy

El Salvador:

Carlos Aquilino Duarte Funes, Minister of Agriculture and Livestock

Guillermo Otero Medal, Representative of OIRSA in El Salvador

Bonnie Richardson, Economic Section, American Embassy

Eduardo Pena Solano, Assistant Economic Section, American Embassy, El Salvador

List of Individuals Contacted

Honduras:

Miquel Angel Bonilla, Minister of Natural Resources

Wilfredo Arrazola, General Director for Agriculture

Ricardo Romero Trochez, Chief, Plant Health Program

Roberto Villeda Toledo, Advisor to the Ministry of Natural Resources

Oscar Jose Umana, Representative of OIRSA in Honduras

Fausto Rodriguez Lopez, In Charge of Plant Health for OIRSA in Honduras

Carlos Bastanchuri, Representative of FAO in Honduras

Mexico:

Federico Cuanalo de la Cerda, Subsecretario de Agricultura y Operations

Ramon Claveran Alonzo, Director General del Instituto Nacional de Investigaciones Agricolas

Moises Teliz Ortiz, Director General de Sanidad Vegetal

Guatemala:

Humberto Mancur, Minister of Agriculture

Arturo Aguirre, Vice Minister of Agriculture for Plant Products

Roberto Munoz, Vice Minister of Agriculture for Animal Health

Jorge Escobedo, Director of Plant Health

Roger A. Landaverde, Organismo Internacional Regional de Sanidad Agropecuaria, El Salvador

Manuel Hoffman, Organismo Internactional Regional de Sanidad Agropecuaria Representative in Guatemala

IV.B. Comments on Social, Political, and Economic Findings

Information gathered during meetings with governmental officials, Embassy personnel, regulatory officials, and others, has been recorded, condensed, and classified in social, political, or economic categories. This information, both positive and negative, represents a consensus opinion of the Committee of the views expressed by Central American and Panamanian officials regarding a Medfly eradication program.

Social:

1. The eradication of Medfly in Central America and Panama will lower the possibility of entry and establishment of this pest in the United States, the Caribbean, and other noninfested areas of the world, reducing the need for increasing objectionable aerial pesticide treatments and costly quarantine requirements.

2. Agricultural programs are the single most promising area for positive cooperation in the Central America and Panama area. Medfly eradication is viewed by all countries involved as beneficial and needed. There is a strong desire by the governments of all countries involved to cooperate.

3. The eradication of Medfly will improve the standard of living in Central America and Panama in several ways. Increased production and marketability of traditional and nontraditional crops would mean more jobs in the general economy. The program needs for rearing facilities, trapping programs, quarantines, and operational supplies and materials will create additional employment. Increased exports of nontraditional crops should increase the economic base of the countries involved and have a positive effect on theirstandards of living.

4. Fruit growing and marketing in Central America is an important social-economic activity mainly done by small businesses. Increased fruit production, extension of harvest periods, and improvement of fruit quality could be expected to result from Medfly eradication and aid the area's diet, employment, and trading activity.

5. Training required for specialized technical workers for an eradication program would generally upgrade skill levels and increase each country's ability to deal more effectively with other pest and disease problems. Following successful eradication of Medfly in the region, the facilities and trained personnel could be adapted to other similar plant health programs. More detailed information is needed about the proposed program so it can be integrated into each country's present agricultural program.

6. Public acceptance is essential to program success. To achieve this requires resolution of the difficulties presented by geographical distribution of the population, media coverage, and level of public understanding.

7. Most countries have established as a primary agricultural priority increasing the production of protein to better feed their people. Medfly eradication will help supplement the diet through increased fruit production.

IV.B. Comments on Social, Political, and Economic Findings

8. Use of pesticides, an environmental concern, will be reduced as a result of successful eradication of Medfly in the participating countries.

Political:

1. In every country, the Agricultural Ministers voiced support of the concept of Medfly eradication in Central America. In addition, they expressed their willingness to work with the other countries involved in achieving eradication.

2. There was general interest on the part of the Ministers in modifying the technical proposal presented to them (eradicating from the north of the region toward the south) to move the sterile fly barrier from both north to south and at the same time from south to north.

3. Because of the existence of agriculture support infrastructures and the existence of internal political problems in some of the countries, using present national borders as zone boundaries is desirable. This approach increases the need for careful coordination and cooperation when infestations are present in border areas.

4. Rapid agreement and overall project completion is desirable. The situation within individual countries potentially can change. Although this may not affect support for the eradication concept, it could create serious delays.

5. The security and protection of all personnel involved in the project is a prime concern. It is essential that politically acceptable international agencies play a leading role in increasing the probability of effective cooperation. Each country should be expected to give its full commitment to program objectives and organization in this regard. The operational effectiveness of the program requires the utilization of citizens of each country. However, provision must be made for the use of foreign technical advisors. In addition, the security of aircraft essential to the program should be the responsibility of each country involved.

6. It is important to have grower support and cooperation in each country. The support of coffee growers is particularly important because of the distribution of the crop and its importance as a primary host of the Medfly. Coffee is affected by Medfly.

7. There are several existing international agencies in the region that have established working relationships with all governments. Examples of these agencies are FAO, OIRSA, and IICA. They maintain offices and personnel in each country; could be used effectively in the supervision, coordination, administration, and research and extension of the program; and could have an especially important role becuase of the volatile political situation in Central America.

8. Political unrest in certain areas of Central America could have serious impact on the success of the program. Continuing evaluation of the problem would be necessary to determine what adjustments should be made to ensure success.

IV.B. Comments on Social, Political, and Economic Findings

9. Plant protection agencies function in each Central American country and Panama. They have the legal authority necessary to conduct plant and animal regulatory programs. A specific protocol designed for Medfly eradication will be needed to guide the program to a successful conclusion.

Economic:

1. Eradication of Medfly in Central America and Panama will reduce the risk of entry of this pest into the United States and other countries, including Caribbean countries that could potentially be affected. Quarantine restrictions and eradication programs could significantly downgrade the economic viability of affected crops.

2. The Caribbean Basin Initiative is expected to result in increased travel and trade between the United States and the Central American countries and Panama, and the Caribbean islands which, in turn, will increase the risk of Medfly infestation of these countries.

3. Financial resources in the countries involved constitute the primary program constraint. In most cases, contributions to an eradication program would be made "in kind," for example, land needed for rearing facilities, office space, communication equipment, and manpower needed for program operations. The countries also could provide access to airport facilities, conduct public information programs, and facilitate duty-free importation of project supplies not available locally.

4. Economic conditions in the participating countries require contributions from outside the region if the program is to succeed. Potential donor countries and agencies include those now providing assistance in the region and others with technical or financial interest in such an operation.

5. An important basis for determining the viability of an eradication project is an analysis of the economic costs and benefits, including external and secondary effects. Such a study may also be useful in determining a reasonable level of contribution from the countries receiving the benefits—particularly in the long-range financial management of the barrier to be established and maintained in Panama.

6. Various cost comparisons are necessary to determine the proper choice of technical program alternatives. Significant factors affecting costs include the size and number of sterile-fly production facilities, as well as the timeframe for operations. The value of the facilities for future projects, such as eradication of other fruit fly species, should be considered.

7. Present and potential restrictions on the use of chemical fumigants, such as ethylene dibromide, have a significant negative impact on the economic viability of agricultural import and export capabilities in the affected countries. The eradication of Medfly could be expected to relieve problems in this area by allowing movement of host products in international channels without restrictions.

8. The present USDA, Mexico, Guatemala cooperative program has been successful in eradicating the Medfly from southern Mexico and establishing a buffer zone at the Guatemala/Mexico border. Continued support is essential to protect these gains and to strengthen the buffer zone area concept.

C. Budget Information and Cost-Benefit Analysis

Benefit Cost Analysis
# of Medfly Eradication
in Central America

April 30, 1985

Prepared by

Policy Analysis and Program Evaluation Staff
Budget and Accounting Division
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ECONOMIC ANALYSIS OF ERADICATING MEDFLY IN CENTRAL AMERICA

Introduction

The Animal and Plant Health Inspection Service of the USDA, with Mexico and Guatemala, maintains a barrier to prevent Medfly (Ceratitis capitata) from entering Mexico from Guatemala. APHIS is evaluating the feasibility of eradicating Medfly from Central America and Panama and establishing a new barrier near the Panama-Colombia border. Medfly attacks a wide range of fruit and vegetable crops in Central America; the most important economic damage is done to citrus, coffee, and other fruits and vegetables. In addition, Central America incurs the cost of treating growing crops, and the cost of government quarantine and treatment to hinder the spread of Medfly in Central America and Panama. The United States faces a risk of Medfly introduction from Central America; moving the Medfly barrier to Panama will reduce this risk.

Medfly Eradication: Costs and Benefits

Costs

APHIS-PPQ staff has developed a plan to eradicate Medfly from Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama. The estimated cost totals $349 million over a period of 9 years (Table 1). The barrier zone at the Panama-Colombia border, established in year 10, following eradication, is estimated to cost $23.1 million per year. The estimated dates Medfly is expected to be eradicated from specific countries are presented in Table 2.

The current Medfly program in Mexico and Guatemala is estimated to cost $13.9 million in 1985. Contributions from the United States total $7.9 million; Mexico, $4 million; and Guatemala, $1.2 million.

The eradication plan is an alternative to the current program which will operate into perpetuity unless another alternative is selected. As such, the cost of the current program is essentially a fixed cost. The real cost of any alternative is the incremental cost over and above the cost of current program. The incremental cost of the eradication project is $238 million over 9 years, plus the incremental cost of $9.2 million per year to operate the Medfly barrier at the Panama-Colombia border (Table 3).

Benefits

The benefits include: (1) the value of risk reduction to the United States; (2) the value of reduced crop losses in Central America for citrus, coffee, and other fruits and vegetables; (3) treatment cost savings to Central American farmers; and (4) savings in public costs for treatment and quarantine in Central America and Panama. The values for reduced crop losses, farm-level treatment costs, and public costs for quarantine and treatment were provided by an interagency technical evaluation team. The value of the risk reduction to the United States is developed in Appendix 2.

Estimated crop loss in Central America and Panama totals $36.5-$92.2 million annually, depending on the assumptions used for citrus production and coffee losses to Medfly (Table 4). About 50 percent of total losses are due to coffee (assuming a 7% loss). Farm level treatment cost and public costs for quarantine and inspection are negligible.

Based on an expected value analysis, eradicating Medfly from Central America would produce benefits of $0.3-$2.3 million per year (see Appendix 2).

The estimated flow of benefits over the project life is based on the economic benefits starting the year following complete eradication for a given country (Table 5). Where eradication is expected to take more than 1 year, benefits are phased in equally over the eradication period. Full benefits will begin accruing in year 10. The assumptions used to estimate these benefits are presented in more detail in the following section.

Economic Analysis

Method

The eradication project is analyzed using a partial equilibrium approach. That is, only direct costs and benefits of the project are included. Secondary costs and benefits and other associated effects are not addressed. The economic worth of the project is analyzed using discounted cash flows of cost and benefits over a 25-year period (at 12.5% discount rate). Although the costs and benefits theoretically continue into perpetuity, a 25-year time horizon is used because of uncertainties with respect to risk of reinfestation and the production and demand for Medfly-affected commodities in the distant future.

Assumptions

Budget: The incremental cost of the eradication plan (Table 3) is the cost for the program.

Benefits: Benefits, by country (Table 4) and by project year (Table 5) are used for the economic analysis. Benefits from reduced treatment cost and government expense for quarantine and inspection are used as given. Crop losses for citrus and coffee are modified to address uncertainty regarding data accuracy and market potential.

Citrus: Two estimates of citrus losses are used:

1. Both are based on 28 percent current losses ending after Medfly is eradicated (i.e., 28 percent yield increase.)

2. One estimate (the higher of the two) is based on production and price data provided by the Medfly Technical Committee (MTC)—developed by Organismo International Regional de Sanidad Agropecuaria (OIRSA).

3. The second estimate is based on FAO (Food and Agriculture Organization of the United Nations) production estimates and OIRSA unit values. See Table 4 for estimates by country.

4. Because price elasticities for domestic citrus consumption in Central America are unavailable, the price change that will occur when citrus production increases is not estimated. In effect, the analysis assumes all increased production is marketed at current prices. See Appendix 2 for a discussion of price effects from increased supply.

Coffee: Two estimates are prepared for economic benefits from Medfly eradication. Considerable uncertainty exists as to actual damage to coffee from Medfly. Estimates range from a 7 percent loss in Africa (25) to estimates of zero, 2 and 5 percent in Central America (8, 9). The USDA's Agricultural Research Service is replicating the study done in Africa to determine coffee loss from Medfly under Central American conditions. In addition, world coffee market conditions and projections raise serious questions about the ability of Central America to increase coffee exports (22). See Appendix 2 for a discussion of the world coffee market.

1. Both estimates are based on MTC (OIRSA) data for production and value.

2. The higher estimate is based on a 7 percent loss. This implicitly assumes the increased yield is marketed at current prices.

3. The second estimate is zero loss. This reflects the possibility that losses are currently negligible, and/or increased production cannot be marketed at current prices.

Other: Based on 2 percent current losses to other vegetables and fruit attacked by Medfly. Data provided by the MTC from OIRSA.

Scenarios

To model some of the uncertainty regarding potential benefits from increased output of citrus and coffee, and uncertainty in project costs and potential benefits to the United States, four scenarios were developed to present a range of potential outcomes (Table 6). These scenarios include a range of benefits from reduced Medfly damage to citrus and coffee, and value of risk reduction to the United States. In evaluating large agricultural projects it is common to include 0-15 percent of total cost to allow for contingencies (7). Scenario 4 includes 15 percent of total costs to allow for contingencies.

Results:

Based on discounted cash flow analysis over a 25-year period, the benefit-cost ratio for the project ranges from 2.5—0.8, depending on the scenario (Table 7). Scenarios 1 and 2 both include benefits from an assumed 7 percent increase in coffee production. They differ only in the source of citrus production data. Their benefit-cost ratios (2.5 and 2.2) are relatively close, indicating the economic feasibility is not very sensitive to variations in estimated citrus production. That is, citrus benefits for scenarios 1 and 2 differ by 30 percent (Table 4), but the final benefit cost ratios differ by only 10 percent.

The major determinants of the economic feasibility of Medfly eradication are (1) the actual coffee losses due to Medfly, and (2) the assumptions regarding the potential for marketing 7 percent more coffee from Central America. This is evidenced by the difference in benefit-cost ratios for scenarios 2 and 3. The only significant difference between scenario 2 and 3 is a 7 percent coffee increase in scenario 2 and none in scenario 3. If coffee yields are assumed to increase at 7 percent (and all production is marketed at current prices), the project is economically feasible. If coffee yields do not increase or increased production is not marketed, the project is not economically feasible.

Table I: Budget for Mediterranean Fruit Fly Eradication in Central America.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Total
Rearing Facility										
Honduras	4,000	—	—	—	—	--	--	--	—	4,000
Costa Rica	4,000	—	—	—	—	--	--	--	—	4,000
Sterile Flies										
Production	—	6,757	7,472	7,149	5,711	5,775	7,351	6,357	2,280	48,852
Release	—	5,733	6,340	6,066	4,846	4,900	6,237	5,395	1,935	41,452
Trapping	819	1,879	2,244	2,257	2,148	2,257	2,018	1,603	695	15,920
Fruit Cutting	—	776	596	—	—	282	359	256	52	2,321
Quarantine	—	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	16,000
Chemical Control										
Coffee	—	18,942	17,094	—	—	--	5,544	3,696	924	46,200
Highland	—	766	1,466	1,619	1,050	—	1,684	584	898	8,067
Coastal Lowlands	—	13,781	9,647	—	—	7,580	7,580	5,313	1,050	45,151
Jungle	—	—	1,399	16,538	15,611	18,670	6,485	15,847	--	74,550
Information	150	150	150	150	150	150	150	150	150	1,350
Training	150	150	150	150	150	150	150	150	150	1,350
OISRA Overhead	500	3,544	3,378	2,494	2,196	2,902	2,748	2,888	688	21,338
APHIS Overhead	250	2,025	1,930	1,425	1,255	1,659	1,570	1,650	393	12,157
Methods Development	250	250	250	250	250	250	250	250	250	2,250
Environmental Evaluation	--	500	500	500	500	500	500	500	500	4,000
TOTAL	10,119	57,253	54,616	40,598	35,867	47,075	44,626	46,839	11,965	348,958

Source: APHIS, Budget and Accounting Division; Hyattsville, MD

Ceutral America Mediterranean Fruit Fly Program
Budget Assumptions

1.	Rearing Facility	- based on expert estimates.
2.	Sterile Flies Production	- based on a cost of \$75 per million - production for 28 weeks for coastal and jungle areas - production for 37 weeks for coffee areas - production for 46 weeks for highland areas
	Release	- based on \$70 per million - same weekly amounts as production for different areas
3.	Trapping	- based on \$1 per trap visit, three times per month - 60 percent of all area trapped - based on four areas: monitoring (area already treated); eradication (area currently under treatment); delimiting (next area to be treated); and, increment (area beyond the next to be treated) - one trap per 2.6 KM^2 except in the eradication area, which will have one trap per KM^2
4.	Fruit Cutting	- based on \$3 per kilo, 26 times per year - only conducted on coffee and coastal areas - .25 kilos of fruit per KM^2
5.	Quarantine	- best judgment of program officials, based on experience in Mexico and Guatemala
6.	Chemical Control	- based on \$350 per KM^2 - 50 percent of coastal lowlands treated; two applications - 75 percent of jungle treated; two applications - 100 percent of coffee treated; four applications - 25 percent of highlands treated; one application
7.	Information	- best judgment of program officials
8.	Training	- best judgment of program officials
9.	OISRA Overhead	- seven percent of costs, except information, training, methods development, and environmental evaluation, for years 2-9 - \$500 thousand for first year startup
10.	APHIS Overhead	- four percent of costs, except information, training,methods development, and environmental evaluation for years 2-9 - \$250 thousand for first year startup
11.	Methods Development	- best judgment of program officials, based on experience and historical allocations
12.	Environmental Evaluation	- best judgment of program officials, based on experience and historical allocations

Table 2: Estimated Medfly eradication dates for Central American countries.

Country	Eradication Achieved	Benefits Begin[1]
Guatemala	Year 2	Year 3
El Salvador	Year 3	Year 4
Honduras[2]	Year 5	Year 4 (4-6)
Nicaragua[3]	Year 8	Year 7 (7-9)
Costa Rica[4]	Year 9	Year 9 (9-10)
Panama	Year 9	Year 10

Source: Technical Committee on Medfly Eradication in Central America, USDA-APHIS.

1. Benefits from reduced crop loss, treatment cost savings, and government cost savings begin the first year following eradication.

2. Benefits for Honduras phased in equally over 3 years (years 4-6).

3. Benefits for Nicaragua phased in equally over 3 years (years 7-9).

4. Benefits for Costa Rica phased in equally over 2 years (years 9-10).

Table 3: Estimated cost of eradicating Medfly in Central America, current Medfly program cost, and incremental cost of proposed eradication.

Year	Estimated Cost[1]	Current Program Cost	Incremental Cost[2]
	Millions of Dollars (1985 US$)		
1	10.1	13.9	10.1
2	57.3	13.9	43.4
3	54.6	13.9	40.7
4	40.6	13.9	26.7
5	35.9	13.9	22.0
6	47.1	13.9	33.2
7	44.6	13.9	30.7
8	46.8	13.9	32.9
9	12.0	13.9	-1.9
10+	23.1	13.9	9.2

1. Budget estimates prepared by Plant Protection & Quarantine and Budget and Accounting Division, APHIS.

2. Incremental cost is the estimated cost for Medfly eradication above and beyond the cost of the current program (column 1 minus column 2). Revised citrus losses based on quantity estimate from FAO and unit value estimate from MTC.

Table 4: Current losses and costs due to Medfly in Central America.

Current costs and losses due to Medfly	Country						
	Guatemala[1]	El Salvador	Honduras	Nicaragua	Costa Rica	Panama	Total
	Millions of Dollars (US$)						
Crop loss [2]							
Citrus	4.5	7.5	7.6	6.2	5.9	5.5	57.2
Coffee	13.6	9.8	7.0	4.9	9.10	0.7	45.1
Other	4.3	1.0	1.4	0.8	1.0	1.1	9.6
Treatment cost	—	0.02	0.06	na	0.01	0.05	0.14
Govt. cost	—	0.02	0.06	na	0.01	0.03	0.12
Total	22.4	18.3	16.1	11.9	16.0	7.4	92.2
Citrus loss, adjusted[3]	4.5	6.6	2.1	3.8	5.4	4.3	26.3
Revised Total, (w/coffee)[4]	22.4	17.4	10.6	9.5	15.5	6.2	81.6
Revised Total, (w/o coffee)[5]	8.8	7.6	3.6	4.6	6.4	5.5	36.5

Source: Technical Committee on Medfly Eradication in Central America, USDA-APHIS-ARS.

(footnotes on following page)

Table 4 (continued)

1. Estimates of losses from Medfly in Guatemala were not available to the Medfly Technical Committee. Losses were estimated as follows:

    A. Citrus: Estimated citrus production for Costa Rica and Guatemala averaged 75,000 MT and 58,000 MT 1978-82, respectively (Table 2). 1978-82 ratio of Guatemala to Costa Rica production equals 0.77 (58/75=0.77). Medfly losses in Guatemala are estimated by multiplying losses in Costa Rica by this ratio (0.77).

    B. Coffee: FAO statistics indicate coffee production in Costa Rica averaged 107,000 MT annually 1978-82 (Table 2). Coffee production in Guatemala averaged 161,000 MT annually, 1978-82. Coffee losses due to Medfly in Guatemala are estimated by multiplying Costa Rica losses by 1.5, the ratio of production in Guatemala to that in Costa Rica (161/107=1.5).

    C. Other Vegetables: Production of vegetables and melons totaled 251,00 MT for Guatemala and 58,000 MT for Costa Rica, 1978-82 (Table 2). Medfly losses for Guatemala are estimated by multiplying Costa Rica losses by 4.33; the ratio of production in Guatemala to Costa Rica (251/58=4.33).

    D. Government costs are assumed to be included in Guatemala's contribution to the Medfly program on the Mexico-Guatemala border. Farm-level treatment costs are not known. Not including a value for these has virtually no effect on the analysis because expenditures for these are negligible compared to other costs and benefits (Table 4).

2. Crop loss based on 28 percent loss for citrus, 7 percent loss for coffee, and 2 percent for other. Composition of citrus and "other" varies by country. Values based on 1982-84 average production and value.

3. Citrus production estimates provided by the Medfly Technical Committee vary substantially from estimates by the Food and Agriculture Organization (FAO) of the United Nations. The values for adjusted citrus losses are based on a 28 percent loss of FAO production estimates and the unit values provided by the MTC.

4. Revised total based on revised citrus loss, i.e., revised citrus loss is substituted for original citrus loss. This total includes coffee losses at 7 percent.

5. Revised total (without coffee) is sum of revised citrus loss, other, treatment cost, and government cost. Coffee excluded to take into account current coffee surplus and attendant marketing problems.

Table 5: Medfly eradication in Central America: Estimated flow of benefits to Central America by year of project life[1,2]

	Year									
	1	2	3	4	5	6	7	8	9	10+
	Millions of Dollars (1985 US$)									
Benefits[3]										
Reduced crop loss										
Citrus	0	0	4.5	14.5	17.0	19.6	21.7	23.8	28.7	37.2
Coffee	0	0	13.6	25.7	28.0	30.4	32.0	33.6	39.8	45.1
Other	0	0	4.3	5.8	6.3	6.7	7.0	7.3	8.0	9.6
Savings										
Treatment cost	0	0	—	0.4	0.06	0.08	0.08	0.08	0.11	0.14
Public cost	0	0	—	0.4	0.06	0.08	0.08	0.08	0.09	0.12
Total	0	0	22.4	46.0	51.3	56.9	60.9	64.9	76.8	92.2
Revised citrus loss[4]	0	0	4.5	11.7	12.3	13.2	14.5	15.8	19.7	26.3
Revised total, w/coffee[5]	0	0	22.4	43.5	47.0	50.5	53.3	56.5	67.7	81.6
Revised total, w/o coffee[6]	0	0	8.8	17.6	18.8	20.1	21.7	23.3	27.9	36.5

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1. Benefits in a given year are the undiscounted benefits that occur in that year. See Table 2 for estimated eradication schedule and when benefits of eradication begin for each country.

2. Composition of benefits by year is as follows: Year 3 benefits—Guatemala; year 4 benefits—Guatemala, El Salvador, plus 1/3 of benefits for Honduras; year 5 benefits—Guatemala, El Salvador, plus 2/3 of benefits for Honduras; year 6 benefits—Guatemala, El Salvador, and Honduras; year 7 benefits—Guatemala, El Salvador, Honduras, plus 1/3 of benefits for Nicaragua; year 8 benefits—Guatemala, El Salvador, Honduras, plus 2/3 of benefits for Nicaragua; year 9 benefits—Guatemala, El Salvador, Honduras, Nicaragua, and 1/2 of benefits for Costa Rica; year 10 and following years' benefits—Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama.

3. See Table 4 footnotes for source and definition of losses and savings.

4. See Table 4, footnote 3.

5. See Table 4, footnote 4.

6. See Table 5, footnote 5.

Table 6: Components of Medfly eradication scenarios for Central America.

	Program Benefits				
	Reduced Crop Loss[1]				
Scenario[2]	Citrus	Coffee[3]	Other	Reduced Risk[4]	Program Cost[5]
1	28% (MTC)	7% (MTC)	2%	high	baseline
2	28% (MTC)	7% (MTC)	2%	high	baseline
3	28% (FAO)	0	2%	low	baseline
4	28% (FAO)	0	2%	low	15% increase

MTC = Medfly Technical Committee as source of data on production and value.

FAO = Food and Agriculture Organization of the United Nations as source of data on citrus production. These estimates are lower than the MTC data.

1. Percentage figures indicate increased yield following Medfly eradication.

2. See Table 6.

3. Estimates of coffee loss due to Medfly range from 0 to 7 percent (8,9,25).

4. Expected value at reduced risk to the United States of Medfly introduction. Low value is $0.3 million/year, high value is $2.3 million/year. See Appendix 2 for computation of expected values.

5. Baseline cost is program cost as given; 15 percent increase is a flat 15 percent increase in budget to allow for contingencies (not 15 percent annual inflation).

Table 7: Estimated economic performance of Medfly eradication project in Central America.[1]

Scenario[3]	Present Value[2]			Benefit-Cost Ratio[6]
	Benefits[4]	Costs[5]	Net	
	- Millions 1985 U.S. Dollars -			
1	402	164	238	2.5
2	360	164	196	2.2
3	152	164	-12	0.9
4	152	189	-38	0.8

1. See Table 1 for estimated budget, Table 2 for eradication schedule.

2. Sum of present value when benefits and costs are discounted at 12.5 percent over a 25-year period. Net is benefit minus cost.

3. See Table 6 for definition of scenarios.

4. Benefits consist of reduced losses to citrus, coffee, and other vegetables; reduced public expenditures for quarantine and inspection; and reduced risk to the United States. See Table 4 for current losses and costs due to Medfly in Central America. See Table 5 for estimated flow of benefits over project life. See Appendix 2 for discussion and evaluation of risk reduction to the United States.

5. See Table 3 for computation of incremental costs of eradication program over the cost of the current barrier program.

6. Ratio of total discounted benefits to total discounted costs.

Appendix 1: Supplementary Tables for Benefit-Cost Analysis for Scenarios 1-4.

Appendix Table 1. Present value of benefits and costs of Medfly eradication in Central America, Scenario 1 1/

Project Year	Year	COSTS		BENEFITS 2/					
		Incremental costs 3/	Present value 4/	Treatment cost savings	Crop damage prevention		Risk reduction	Total	Present value 4/
					Citrus	Other			
		Millions 1985 U.S. dollars							
1	1986	10.1	9.0	0.0	0.0	0.0	0.0	0.0	0.0
2	1987	43.4	34.3	0.0	0.0	0.0	0.0	0.0	0.0
3	1988	40.7	28.6	0.0	4.5	17.9	0.0	22.4	15.7
4	1989	26.7	16.7	0.1	14.5	31.5	0.0	46.1	28.8
5	1990	22.0	12.2	0.1	17.0	34.3	0.0	51.4	28.5
6	1991	32.2	15.9	0.2	19.6	38.1	0.0	57.9	28.6
7	1992	30.7	13.5	0.2	21.7	39.0	0.0	60.9	26.7
8	1993	32.9	12.8	0.2	23.8	40.9	0.0	64.9	25.3
9	1994	-1.9	-0.7	0.2	28.7	47.8	0.0	76.7	26.6
10	1995	9.2	2.8	0.3	37.2	54.7	2.3	94.5	29.1
11	1996	9.2	2.5	0.3	37.2	54.7	2.3	94.5	25.9
12	1997	9.2	2.2	0.3	37.2	54.7	2.3	94.5	23.0
13	1998	9.2	2.0	0.3	37.2	54.7	2.3	94.5	20.4
14	1999	9.2	1.8	0.3	37.2	54.7	2.3	94.5	18.2
15	2000	9.2	1.6	0.3	37.2	54.7	2.3	94.5	16.1
16	2001	9.2	1.4	0.3	37.2	54.7	2.3	94.5	14.4
17	2002	9.2	1.2	0.3	37.2	54.7	2.3	94.5	12.8
18	2003	9.2	1.1	0.3	37.2	54.7	2.3	94.5	11.3
19	2004	9.2	1.0	0.3	37.2	54.7	2.3	94.5	10.1
20	2005	9.2	0.9	0.3	37.2	54.7	2.3	94.5	9.0
21	2006	9.2	0.8	0.3	37.2	54.7	2.3	94.5	8.0
22	2007	9.2	0.7	0.3	37.2	54.7	2.3	94.5	7.1
23	2008	9.2	0.6	0.3	37.2	54.7	2.3	94.5	6.3
24	2009	9.2	0.5	0.3	37.2	54.7	2.3	94.5	5.6
25	2010	9.2	0.5	0.3	37.2	54.7	2.3	94.5	5.0
Total	--	384.0	163.9	5.8	725.0	1124.7	36.8	1892.3	402.3

(Footnotes on the following page.)

Appendix Table 1 Footnotes

1. See Table 6 (main text) for description of scenarios.
2. Benefits include reduced damage to citrus, coffee, and other fruits and vegetables; reduced treatment costs; reduced government costs for quarantine and inspection; and value of reduced risk of Medfly infestation in the United States.
3. Incremental costs above the cost of the current Mexico-Guatemala barrier (see Table 3).
4. Computed at 12.5 percent interest rate.

Appendix Table 2. Present value of benefits and costs of Medfly eradication in Central America, Scenario 2 1/

		COSTS		BENEFITS 2/					
					Crop damage prevention				
Project Year	Year	Incremental costs 3/	Present value 4/	Treatment cost savings	Citrus	Other	Risk reduction	Total	Present value 4/
		Millions 1985 U.S. dollars							
1	1986	10.1	9.0	0.0	0.0	0.0	0.0	0.0	0.0
2	1987	43.4	34.3	0.0	0.0	0.0	0.0	0.0	0.0
3	1988	40.7	28.6	0.0	4.5	17.9	0.0	22.4	15.7
4	1989	26.7	16.7	0.1	11.7	31.5	0.0	43.3	27.0
5	1990	22.0	12.2	0.1	12.3	34.3	0.0	46.7	25.9
6	1991	32.2	15.9	0.2	13.2	38.1	0.0	51.5	25.4
7	1992	30.7	13.5	0.2	14.5	39.0	0.0	53.7	23.5
8	1993	32.9	12.8	0.2	15.8	40.9	0.0	56.9	22.2
9	1994	-1.9	-0.7	0.2	19.7	47.8	0.0	67.7	23.5
10	1995	9.2	2.8	0.3	26.3	54.7	2.3	83.6	25.7
11	1996	9.2	2.5	0.3	26.3	54.7	2.3	83.6	22.9
12	1997	9.2	2.2	0.3	26.3	54.7	2.3	83.6	20.3
13	1998	9.2	2.0	0.3	26.3	54.7	2.3	83.6	18.1
14	1999	9.2	1.8	0.3	26.3	54.7	2.3	83.6	16.1
15	2000	9.2	1.6	0.3	26.3	54.7	2.3	83.6	14.3
16	2001	9.2	1.4	0.3	26.3	54.7	2.3	83.6	12.7
17	2002	9.2	1.2	0.3	26.3	54.7	2.3	83.6	11.3
18	2003	9.2	1.1	0.3	26.3	54.7	2.3	83.6	10.0
19	2004	9.2	1.0	0.3	26.3	54.7	2.3	83.6	8.9
20	2005	9.2	0.9	0.3	26.3	54.7	2.3	83.6	7.9
21	2006	9.2	0.8	0.3	26.3	54.7	2.3	83.6	7.0
22	2007	9.2	0.7	0.3	26.3	54.7	2.3	83.6	6.3
23	2008	9.2	0.6	0.3	26.3	54.7	2.3	83.6	5.6
24	2009	9.2	0.5	0.3	26.3	54.7	2.3	83.6	4.9
25	2010	9.2	0.5	0.3	26.3	54.7	2.3	83.6	4.4
Total	--	384.0	163.9	5.8	512.5	1124.7	36.8	1679.8	359.8

(Footnotes on the following page.)

Appendix Table 2 Footnotes

1. See Table 6 (main text) for description of scenarios.
2. Benefits include reduced damage to citrus, coffee, and other fruits and vegetables; reduced treatment costs; reduced government costs for quarantine and inspection; and value of reduced risk of Medfly infestation in the United States.
3. Incremental costs above the cost of the current Mexico-Guatemala barrier (see Table 3).
4. Computed at 12.5 percent interest rate.

Appendix Table 3. Present value of benefits and costs of Medfly eradication in Central America, Scenario 3 1/

		COSTS		BENEFITS 2/					
				Treatment cost	Crop damage prevention				
Project Year	Year	Incremental costs 3/	Present value 4/	savings	Citrus	Other	Risk reduction	Total	Present value 4/
		Millions 1985 U.S. dollars							
1	1986	10.1	9.0	0.0	0.0	0.0	0.0	0.0	0.0
2	1987	43.4	34.3	0.0	0.0	0.0	0.0	0.0	0.0
3	1988	40.7	28.6	0.0	4.5	4.3	0.0	8.8	6.2
4	1989	26.7	16.7	0.1	11.7	5.8	0.0	17.6	11.0
5	1990	22.0	12.2	0.1	12.3	6.3	0.0	18.7	10.4
6	1991	32.2	15.9	0.2	13.2	6.7	0.0	20.1	9.9
7	1992	30.7	13.5	0.2	14.5	7.0	0.0	21.7	9.5
8	1993	32.9	12.8	0.2	15.8	7.3	0.0	23.3	9.1
9	1994	-1.9	-0.7	0.2	19.7	8.0	0.0	27.9	9.7
10	1995	9.2	2.8	0.3	26.3	9.6	0.3	36.5	11.2
11	1996	9.2	2.5	0.3	26.3	9.6	0.3	36.5	10.0
12	1997	9.2	2.2	0.3	26.3	9.6	0.3	36.5	8.9
13	1998	9.2	2.0	0.3	26.3	9.6	0.3	36.5	7.9
14	1999	9.2	1.8	0.3	26.3	9.6	0.3	36.5	7.0
15	2000	9.2	1.6	0.3	26.3	9.6	0.3	36.5	6.2
16	2001	9.2	1.4	0.3	26.3	9.6	0.3	36.5	5.5
17	2002	9.2	1.2	0.3	26.3	9.6	0.3	36.5	4.9
18	2003	9.2	1.1	0.3	26.3	9.6	0.3	36.5	4.4
19	2004	9.2	1.0	0.3	26.3	9.6	0.3	36.5	3.9
20	2005	9.2	0.9	0.3	26.3	9.6	0.3	36.5	3.5
21	2006	9.2	0.8	0.3	26.3	9.6	0.3	36.5	3.1
22	2007	9.2	0.7	0.3	26.3	9.6	0.3	36.5	2.7
23	2008	9.2	0.6	0.3	26.3	9.6	0.3	36.5	2.4
24	2009	9.2	0.5	0.3	26.3	9.6	0.3	36.5	2.2
25	2010	9.2	0.5	0.3	26.3	9.6	0.3	36.5	1.9
Total	--	384.0	163.9	5.8	512.5	199.0	4.8	722.1	151.5

(Footnotes on the following page.)

Appendix Table 3 Footnotes

1. See Table 6 (main text) for description of scenarios.
2. Benefits include reduced damage to citrus, coffee, and other fruits and vegetables; reduced treatment costs; reduced government costs for quarantine and inspection; and value of reduced risk of Medfly infestation in the United States.
3. Incremental costs above the cost of the current Mexico-Guatemala barrier (see Table 3).
4. Computed at 12.5 percent interest rate.

Appendix Table 4. Present value of benefits and costs of Medfly eradication in Central America, Scenario 4 1/

		COSTS		BENEFITS 2/					
					Crop damage prevention				
Project Year	Year	Incremental costs 3/	Present value 4/	Treatment cost savings	Citrus	Other	Risk reduction	Total	Present value 4/
		Millions 1985 U.S. dollars							
1	1986	11.6	10.3	0.0	0.0	0.0	0.0	0.0	0.0
2	1987	49.9	39.4	0.0	0.0	0.0	0.0	0.0	0.0
3	1988	46.8	32.9	0.0	4.5	4.3	0.0	8.8	6.2
4	1989	30.7	19.2	0.1	11.7	5.8	0.0	17.6	11.0
5	1990	25.3	14.0	0.1	12.3	6.3	0.0	18.7	10.4
6	1991	37.0	18.3	0.2	13.2	6.7	0.0	20.1	9.9
7	1992	35.3	15.5	0.2	14.5	7.0	0.0	21.7	9.5
8	1993	37.8	14.7	0.2	15.8	7.3	0.0	23.3	9.1
9	1994	-0.1	0.0	0.2	19.7	8.0	0.0	27.9	9.7
10	1995	10.6	3.3	0.3	26.3	9.6	0.3	36.5	11.2
11	1996	10.6	2.9	0.3	26.3	9.6	0.3	36.5	10.0
12	1997	10.6	2.6	0.3	26.3	9.6	0.3	36.5	8.9
13	1998	10.6	2.3	0.3	26.3	9.6	0.3	36.5	7.9
14	1999	10.6	2.0	0.3	26.3	9.6	0.3	36.5	7.0
15	2000	10.6	1.8	0.3	26.3	9.6	0.3	36.5	6.2
16	2001	10.6	1.6	0.3	26.3	9.6	0.3	36.5	5.5
17	2002	10.6	1.4	0.3	26.3	9.6	0.3	36.5	4.9
18	2003	10.6	1.3	0.3	26.3	9.6	0.3	36.5	4.4
19	2004	10.6	1.1	0.3	26.3	9.6	0.3	36.5	3.9
20	2005	10.6	1.0	0.3	26.3	9.6	0.3	36.5	3.5
21	2006	10.6	0.9	0.3	26.3	9.6	0.3	36.5	3.1
22	2007	10.6	0.8	0.3	26.3	9.6	0.3	36.5	2.7
23	2008	10.6	0.7	0.3	26.3	9.6	0.3	36.5	2.4
24	2009	10.6	0.6	0.3	26.3	9.6	0.3	36.5	2.2
25	2010	10.6	0.6	0.3	26.3	9.6	0.3	36.5	1.9
Total	--	443.7	189.2	5.8	512.5	199.0	4.8	722.1	151.5

(Footnotes on the following page.)

Appendix Table 4 Footnotes

1. See Table 6 (main text) for description of scenarios.
2. Benefits include reduced damage to citrus, coffee, and other fruits and vegetables; reduced treatment costs; reduced government costs for quarantine and inspection; and value of reduced risk of Medfly infestation in the United States.
3. Incremental costs above the cost of the current Mexico-Guatemala barrier (see Table 3).
4. Computed at 12.5 percent interest rate.

Appendix 2: Background for Economic Analysis of Medfly in Central America

Agriculture in Central America

Production

Agriculture is a major economic activity in Central America (CA), accounting for about 25 percent of GDP (19). Livestock, grain, cotton, bananas, sugar, and coffee are the most economically important commodities.

Bananas are the most important fruit crop, accounting for 75 percent of the 5.6 million metric tons of fruit produced annually (Table 1). Citrus production in CA has averaged about 400,000 metric tons annually, about 7 percent of total fruit production (Table 1). In addition, relatively small amounts of other crops such as avocado, papaya, mango, and other tree fruits are produced for domestic use and export. A large number of other minor fruit crops are produced for domestic consumption. There is also a substantial amount of home fruit production that does not enter the commercial market.

Exports

Total net exports of forestry, fishery, and agricultural commodities have averaged about $2.5 billion annually in recent years (Table 2) with agricultural commodities accounting for about 97 percent of the total. Coffee is the predominant export crop (with respect to value), accounting for $2.5 billion annually, 60 percent of the value of total exports from CA. Bananas account for about 23 percent of the value of agricultural exports. In terms of net exports, fruits and vegetables account for about 17 percent of the value of all agricultural exports. CA is a net importer of citrus in terms of quantity, a net exporter with respect to value ($1 million/year). Temperate fruits such as apples, pears, plums, and peaches are produced in very small amounts in CA; the region is a net importer of these crops (3,4).

Medfly Damage to Fruits and Vegetables in Central America

Medfly is not native to CA. It was first detected in 1955 in Costa Rica and has now spread to most of CA, except Belize. The impact of Medfly varies from country to country and by crop. The economic damage is variable and depends on the supply and market for the crop. For example, Medfly attacks oranges. In countries where the export market for oranges is in the form of frozen concentrate, Medfly has little impact (9). For those citrus growers who produce for the fresh market, the impact is larger.

Medfly prefers some crops to others. Some crops are almost always infested some occasionally, and others almost never. The most economically important fruit crop, bananas, is not a host for Medfly. About four-fifths of the fruit and vegetable production in Central America is not attacked by Medfly under field conditions (8). More complete information on Medfly hosts is contained in the Medfly Technical Committee Report and other sources (5,8,9).

International Markets for Fruits and Vegetables that are Medfly Hosts

Coffee

Central America produces about 15 percent of the world's coffee (2). Columbia and Brazil together account for about 40 percent of world production. Thus these two countries have a very strong impact on world supply, and the economic fortunes of the CA coffee industry (export value about $580 million/year—Table 2) is affected by the production and marketing activities of these two countries. The world coffee market is controlled by a group of coffee producing and consuming nations that control supply (and thus price) under the World Coffee Agreement (WCA) (22). All CA countries are members, as is the United States. Member countries of the WCA control 99 percent of world coffee production. The WCA sets export quotas for all member countries to assure that adequate supplies are available to consuming countries and to keep the world price at about $1.30 per pound (22).

The world demand for coffee is growing very slowly at this time. Production by Central American countries is above their export quotas set by the WCA (22). As a result, large inventories have built up; storage facilities and the quality of coffee under storage are increasing problems for CA. Coffee exports outside the WCA quota system are usually sold at a price far below the WCA level. The world demand for coffee is very inelastic; that is, small changes in supply create large changes in price (2). Thus overproduction results in proportionately larger declines in price.

Citrus

The world market for fresh citrus is dominated by the United States, Spain, Italy, and Portugal which supply over 60 percent of world exports (14). In 1982-1983 the United States exported over 540,000 metric tons of oranges and grapefruit, about 1.35 times the total citrus production in Central America (3). There is no organization similar to the World Coffee Agreement for citrus. Prices are determined by supply and demand forces in the market. However, the European Community has minimum import price levels to protect Italian and Greek citrus producers and Japan places quotas on citrus imports (18).

Other Tropical Tree Fruits

The international markets for other tree fruit such as mango, avocado, and papayas are small compared to major crops such as bananas. Demand for these crops is limited in the developed countries, and domestic production is adequate for most tropical countries.

Other Factors Affecting Central America Agricultural Exports

Quarantine-Significant Pests

The presence of Medfly restricts markets for some crops. Crops that are host to Medfly frequently cannot be shipped to countries where Medfly can survive. Pests other than Medfly also restrict exports of some of these crops. For example, avocado is host to several seed weevils that cannot be eliminated by fumigation. As a result, they cannot be exported to the United States where the weevils are not found.

Eradicating Medfly from Central America will not open American markets to most fruits and vegetables produced in CA. With the exception of green peppers and papayas (currently not permitted entry because of Medfly), other quarantine-significant pests will still prohibit the entry of fruits and vegetables from Central America into the United States when Medfly is eradicated (20).

Marketing and Production Costs

Aside from quarantine-significant pests, the real determinant of Central American countries' ability to increase fruit and vegetable production and exports is if they can produce, process, package, and market agricultural commodities to foreign markets at a cost competitive with other exporting countries and domestic producers in importing countries. Current estimates of the cost of producing and marketing fruits and vegetables compared to other countries is not readily available. However, historic information suggests that on the basis of production cost alone, Central American citrus producers cannot compete with efficient U.S. producers (8).

An analysis of 1979 production and marketing costs for fresh vegetables in Florida and Mexico concluded Mexico could produce at lower cost than Florida. However, the total cost of producing and marketing tomatoes was higher for Mexican producers because of high transportation costs to the United States. Mexico had an advantage in producing and marketing peppers and cucumbers to the United States, but their comparative advantage was being eroded because the inflation rate in Mexico far exceeded that in the United States (8).

Benefits to the United States

Risk Reduction

The primary benefit to the United States from eradicating Medfly in Central America is the reduced risk of Medfly introduction into the United States, either directly from Central America or from Mexico should it become infested from Medfly from neighboring Guatemala. The United States faces two distinct economic risks from introduction—the cost of eradicating local infestations and the recurring cost to the U.S. economy should an infestation become permanent.

The techniques used for placing a value on risk are based on analysis of the probability of an occurrence and the cost or value of that occurrence. One function often used to express the risk of an undertaking or occurrence in monetary terms is the concept of expected value (EV)[1] or expected money value (1). The monetary value of the risk of an event occurring is expressed: $EV=P_eV_e$, the product of the probability of occurrence (P_e) and the cost or value of an event (V_e). For evaluating a situation of many possible outcomes and differing values for the outcomes, the expected value is expressed: $EV = P_nV_n$, the sum of the products of the probability and the value of n potential occurrences.

A trivial example will illustrate the concept and its application. A person is offered a bet on a coin toss. If the coin lands heads up, the person wins $1. The probability of heads is 50 percent so the expected value of the bet is $.50 (EV = 0.5 x $1 = $.50). To bet more than $.50 would show a preference for risk—a willingness to bet more than the expected value of the outcome. To bet less than $0.50 shows an aversion to risk—a willingness to bet only an amount less than the expected value of the outcome. To bet exactly $0.50 is to be "risk neutral," showing a willingness to bet only an amount equal to the expected value of the outcome. This same technique is used to evaluate solutions for reducing risk. An example is the decision to build a dam to prevent damage from periodic floods. Given the annual probability of a flood is 0.02 (one flood in 50 years), and the damage caused by a flood is $5 million, the expected value is computed: EV= (0.2)($5 million) =$100,000 (This is an annualized value). If the annualized cost of the dam does not exceed $100,000, its cost would be considered worth the reduced risk of flood damage.

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[1] This is also seen in the literature as EVR, expected value of risk (12).

Risk of Medfly Introduction to the United States

Over the past 75 years there have been 12 Medfly infestations in the United States (5). Each was eradicated. Thus the occurrence of Medfly infestation has been about one every 6 or 7 years, or an annual probability of about 0.14. Medfly is found in over 80 countries in addition to Central America, so the risk of Medfly infestation to the United States does not derive entirely from Central America. From 1971-84, APHIS intercepted Medfly 1,607 times; only 56 interceptions (3.4% of the total) were from Central America (Table 3). Several other countries have been the origin of most Medfly interceptions. Hawaii accounts for 40 percent of the total, Italy 15 percent, and Portugal 11 percent; these three countries account for 2/3 of all Medfly interceptions. Assuming the source of Medfly infestations is in proportion to their interception rate, for a given infestation there is a 3.4 percent chance it came from Central America. There has not been a permanent infestation from 12 infestations, thus the probability of a local infestation becoming permanent is less that 8 percent.[1] For this study a probability of 2 percent is used, based on discussions with APHIS Emergency Programs Staff (24).

Economic Impact of Medfly Infestation in the United States

Based on the recent history of Medfly eradication programs in the United States, the cost of eradicating a Medfly infestation has ranged from $2 million to $100 million. The cost of eradicating a typical Medfly infestation is estimated at $5 million (24). The economic impact of a permanent Medfly infestation in California has been estimated at $350-$750 million annually (5). Based on this estimate, the impact of a permanent Medfly infestation in the United States is estimated at roughly $2 billion annually.[2]

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[1] A permanent infestation is defined as lasting longer than 12 months.

[2] This is problematic because losses of this magnitude would be unacceptable to the United States. If an infestation became widespread an eradication effort would be initiated that would cost hundreds of millions of dollars.

Expected Value of Medfly Infestation in the United States

Given these costs and probabilites for Medfly introduction, infestation, and permanent infestation, the annual expected value (EV) is computed:

EV(temporary infestation) =

$$(1.6 \times 10^{-1})(3.4 \times 10^{-2})(\$5 \times 10^{6}) = \$27{,}000$$

EV(permanent infestation) =

$$(1.6 \times 10^{-1})(3.4 \times 10^{-2})(2 \times 10^{-2})(\$2 \times 10^{9})$$

$$= \$2.18 \times 10^{5} = \$218{,}000$$

Total $= \$218{,}000 + \$27{,}000 = \$245{,}000$

Given:
- a. Annual probability of infestation $= 1.4 \times 10^{-1}$ (14%)
- b. Probability of Central America as source of Medfly $= 3.4 \times 10^{-2}$ (3.4%)
- c. Cost to eradicate infestation $= \$5 \times 10^{6}$ ($5 million)
- d. Cost of permanent infestation $= \$2 \times 10^{9}$ ($2 billion/year)
- e. Probability of infestation becoming permanent $= 2 \times 10^{-1}$ (2%)

The frequency of Medfly infestation may be increasing over time (5). The risk of Medfly infestation from Central America may be higher than the proportion of Medfly interceptions from Central America due to the frequency of U.S. travelers from the Southwest going to and from Central American countries. To account for the uncertainty in the various probabilities, a revised risk estimate was prepared. The EV of temporary and permanent infestions in the United States is recalculated based on the following changes:

1. The annual probability of Medfly infestation in the United States is 0.33 (once every 3 years, not one in seven years as previously assumed).

2. The probability Central America would be the source of a Medfly infestation is 0.15 (15%, rather than 3.4% as derived from historic interception records).

Thus the EV is calculated:

EV(temporary infestation) =

$$(3.3 \times 10^{-1})(1.5 \times 10^{-1})(\$5 \times 10^{6})$$

$$= \$2.475 \times 10^{5} = \$247{,}500$$

EV(permanent infestation) =

$$(3.3 \times 10^{-1})(1.5 \times 10^{-1})(\$2 \times 10^{9})(2 \times 10^{-2})$$

$$= \$1.98 \times 10^{6} = \$1{,}980{,}000$$

Total $= \$247{,}500 + \$1{,}980{,}000 = \$2{,}227{,}500 = \$2.25$ million

Given: a. Annual probability of Medfly infestation = 3.3×10^{-1} (33%)
b. Probability Central America as source = 1.5×10^{-1} (15%)
c. Other costs and probabilty as given previously.

Based on these two sets of assumptions, the annual value for the risk of Medfly infestation from Central America to the United States ranges from $0.25-$2.25 million. If Medfly is eradicated from Central America, this value would be a benefit to the United States in the form of reduced risk.

Supply and Demand Relationships for Food

The demand for most agricultural commodities and food is price-inelastic (6). That is, in response to a given change in price, the change in quantity demanded is of a lesser magnitude. This also means that a change in quantity supplied (e.g., 1%) is usually followed by larger opposite change in price (e.g., - 1.5%). This condition applies to almost all fruits and vegetables (6,9,10). This phenomenon is common to both industrialized and developing economies (15), and has important implications for evaluating economic effects of developments that increase supplies of agriculture commodities.

As supplies increase, all other factors being held constant, prices decline (in the absence of market distortions such as supply restrictions or price ceilings). Because demand for most commodities is price-inelastic, in percentage terms price declines more than supplies increase. The resulting effect is that total revenue to crop producers declines despite an increase in production. Consumers benefit from lower prices and an actual decrease in their total expenditure for the product. The following example illustrates how increased orange supplies would affect U.S. orange growers.

The price effect of a 1 percent increase in U.S. fresh orange supply is computed as follows:

1. Given a farm-level price elasticity of -0.45 for fresh oranges, (6) the corresponding price flexibility is -2.22, the inverse of the price elasticity (13). This means a 1 percent increase (decrease) in the supply of oranges will cause a 2.2 percent decrease (increase) in the farm-level price.

2. The net effect of a yield increase is to make the grower worse off: yields go up by 1 percent, price goes down by 2.2 percent, and resulting total revenues decline 1.22 percent.[1]

3. This is simplified by ignoring the role of inventories, imports, and exports in determining domestic supply, and by ignoring cross-price elasticities which in effect reduce the price flexibility and the resulting price change.

The price elasticities needed to estimate the price effects of increased production in CA are not available (16). Thus, the values for crop loss in Table 4 (main text) are overstated because this factor has not been addressed. Or in other words, the analysis implicitly assumes that all increases in production are marketed at the current price.

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[1] Total revenue before yield increase is unit price times quantity:
Total Revenue = PQ, where P = unit price and Q = quantity.
After a 1 percent yield increase and the resulting 2.2 percent price decrease, total revenue is computed:

$$\text{Total revenue} = (1.0 - 0.022)P \times (1.0 + .01)Q$$

$$= (0.978P)(1.01Q)$$

$$= 0.9878\ PQ$$

where P and Q are unit price and quantity before price and yield change. Thus total revenue declines by 1.22 percent (1.0 - 0.9878 = 0.0122).

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V. Conclusions and Recommendations

1. The existing program in Guatemala/Mexico is meeting the objectives as initially established. There are serious social/political problems in maintaining the current barrier due to objections to repeated pesticidal applications.

2. A program designed to eradicate Medflies from 50,000 square kilometers per year for 7 years would require a total estimated budget of $348,958,000. This includes 1 additional year for planning and another additional year for cleanup, for a total of 9 years. Preliminary information indicates that it may be possible to reduce the costs by up to $50 million if lower levels of chemical spraying accomplish the necessary population reduction.

3. Based on information provided by the Central American countries, Panama, OIRSA, FAO, and the USDA, an economic analysis was performed. The benefits of a Medfly eradication program under the most optimistic assumptions do not outweigh the costs. However, a lower budget would modify this conclusion.

4. Assure the continuation of the cooperative Guatemala/Mexico/United States program and initiate a pushback of infestations in Guatemala to obtain operational experience where heavy infestations occur. This will allow refinement of cost estimates and confirm recommendations of the Technical Committee.

5. Should a pushback program be funded, the most cost effective procedure is to initiate it at the Guatemala/Mexico border and proceed southward through Panama.

6. Provide an international approach to program operations in Central America and Panama by utilizing existing organizations such as FAO, OIRSA, and IICA.

7. Provide, through FAO/Rome, for a meeting with potential donor countries, agencies, and organizations to determine the feasibility of funding an international approach to Medfly eradication in Central America and Panama.

8. Request expertise and financial support through the Joint FAO/IAEA Division.

9. Employ country boundaries as eradication zone borders to the extent feasible to facilitate operational controls.

10. Obtain prior written agreements with each country involved in the eradication project as to the specific nature and extent of financial and other contributions to the program.

11. Provide for the continued use of Medfly production facilities as long as required to assure eradication from the entire area.

V. Conclusions and Recommendations

12. Determine the relationship of a Medfly eradication program to existing and anticipated regional plant and animal health activities to increase possibilities of comprehensive cooperation.

13. Conduct a survey in Panama when the program is initiated to determine if the fly is confined to Chiriqui Province and, if so, maintain a detection/quarantine program to contain the fly in that area until eradication is achieved.

14. Develop model legislation and manuals to support quarantine and other program operational procedures to assure uniformity in the program in each country.

15. Obtain operational experience and grower support as deemed necessary in some countries by conducting demonstrational programs in isolated areas prior to the extension of the program to those countries.

16. Conduct research to determine under Central American conditions the economic impact of the Medfly on coffee.

Mr. **Hawkins**. We appreciate your understanding, Mr. Chairman, and that of your Committee.

FRIDAY, MARCH 21, 1986.

OFFICE OF THE GENERAL COUNSEL

WITNESSES

J. MICHAEL KELLY, ACTING GENERAL COUNSEL
RICHARD L. FOWLER, ASSOCIATE GENERAL COUNSEL
JOHN GOLDEN, ASSOCIATE GENERAL COUNSEL
JAMES R. DRY, EXECUTIVE ASSISTANT TO THE GENERAL COUNSEL
STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Mr. WHITTEN. We have with us Mr. Kelly and his associates from the General Counsel's Office. We are very glad to have you. If there is anyone appearing for the first time before the committee, we'd be glad to have their biographical sketch in the record. We will be glad to hear from you.

Mr. KELLY. Thank you, Mr. Chairman. I believe we have submitted the biographical sketches again this year. At my far right is Jim Dry, Executive Assistant to the General Counsel; next to him, Dick Fowler, Associate General Counsel; John Golden, Associate General Counsel; and on my left is Mr. Dewhurst.

[Biographical sketch follows:]

BIOGRAPHICAL SKETCH OF JAMES R. DRY

Mr. Dry is Executive Assistant to the General Counsel in the Office of the General Counsel. He has held this position since July 1985.

Mr. Dry has held a number of positions in finanical management and management consulting in the private sector. He began his career with Procter & Gamble in 1974 in financial analysis. From 1976 to 1979 he was an investment broker with Smith Barney. From 1979 to 1981, he was Finance Manager for Coca-Cola in Egypt. Since 1981 he has been a Management Consultant with Price Waterhouse and other consulting organizations.

Mr. Dry received his B.S. degree from the Wharton School, University of Pennsylvania in 1972. He received an M.S. degree in Accounting and Finance from the London School of Economics in 1974.

Mr. WHITTEN. Proceed in your own way.

Mr. KELLY. Thank you, sir. We are very pleased to be here, Mr. Chairman, to explain to you the requests for the fiscal year 1987 appropriations for the Office of the General Counsel.

I'd like to ask, Mr. Chairman, that Mr. Oliver's statement be submitted for the record, and I would like to mention only a couple of things from that statement.

Mr. WHITTEN. We will be glad to have it done.

[CLERK'S NOTE.—The complete text of Mr. Oliver's prepared statement appears on page 873. The explanatory notes appear on pages 874 through 888.]

FY 1987 REQUEST

Mr. KELLY. Thank you, sir. The OGC request for fiscal year 1987 is for $17,430,000, and that is a 1-percent reduction below the funds available to OGC for fiscal year 1986.

Mr. Franke referenced economy and efficiency, and the manner in which the Department's administrative management is being carried on in that spirit. That is true of OGC also. Because of the fiscal 1986 cuts imposed by the Gramm-Rudman-Hollings process, the General Counsel's Office is also operating at a reduced staffing level in 1986.

Mr. Chairman, since you have agreed that Mr. Oliver's statement can be submitted for the record, I think I have no further comments to make.

Mr. WHITTEN. We will be glad to have it included.

Mr. KELLY. But we will be pleased to answer any questions that you or the other Members of the committee may have.

OGC OPINIONS

Mr. WHITTEN. I realize this is a tough time for the subcommittee and also for you in that we have not had a Secretary of Agriculture—and apparently in your own Office, since you are Acting General Counsel.

I said earlier the new Secretary has been a longtime friend. I was greatly surprised at some actions he has taken. We asked him to give us an opinion concerning the transferring of funds from a laboratory in Iowa, to make payments for citrus canker in Florida. I asked for an opinion, and, having practiced law myself, I know that lawyers can differ. But when you receive four or five pages explaining an opinion, a lawyer is always suspicious.

We have a statute here that says you can't transfer money to pay obligations for something that has already happened. In the case of the Florida situation—citrus canker—we had announced we were going to do something about it. We had introduced a bill to do something about it. The Department cancelled the program as of March the 31st. This was to reimburse the growers on a 50-percent matching contribution, for damages long after the stock had been destroyed. But we don't see how that could constitute an emergency. The whole opinion has to do with emergencies, and I can't see any emergency in it. Also no mention is made in the opinion of the statute that provides that you can't use transferred money to meet this type of thing.

Now, this committee through the years has had lots of experiences with lots of people. But we had to put in the law a prohibition against transferring money some years ago, because the Department transferred money and did not even talk to Congress about it, and used the money for purposes that Congress hadn't approved. We kept that restriction until we worked out an agreement whereby, if the Department had any such thing in mind, they would notify the committee—and other committees that might be interested—and, if there was no objection, you could go ahead.

In this particular case, the Acting Secretary had called about transferring money from other programs to the Florida situation. I told him the committee would have to have a hearing because the folks with an interest in the programs where money was being taken would have to know about it. The Secretary called back and agreed that he couldn't afford to do that. Then he called again about it, and I told him that we were going to take care of the money for the Florida matter in the pending supplemental. We did that yesterday.

Also, I want to go back another step. When the PIK program came up, we tried for weeks and weeks to get somebody in the legal office of General Counsel to give us an opinion or whether they had authority to do what they were doing. We got a three-page explanation of why they thought it was all right.

I don't know whether that's a weakness in the Department or whether it's a strength. I realize the legal department is supposed to support the Secretary, insofar as it can—and maybe this is as far as you could afford to do. But you wrote a treatise on emergencies, and I can't see where there is any emergency—unless it was a political emergency, and that's not what's intended by the Act.

Do you have any comment on that?

Mr. Kelly. Yes, sir, if I can respond, we would have been pleased to make the memorandum a little shorter and a little simpler and to have reached a conclusion that all parties could have agreed with.

I think the legal basis that we saw, Mr. Chairman, was that the Secretary does have authority to transfer funds from amounts available for the other agencies and corporations of the Department.

CITRUS CANKER AS AN EMERGENCY

Mr. Whitten. Nobody questions that. But tell me what you think about this being an emergency. All that authority is based on an emergency.

Mr. Kelly. Mr. Chairman, I think we regard the emergency as a single event: the outbreak of citrus canker.

Mr. Whitten. An emergency in Florida?

Mr. Kelly. Yes, sir.

Mr. Whitten. The only thing involved was a payment for something already done.

Mr. Kelly. But the outbreak of citrus canker, I think, is regarded as the emergency that occurred.

Mr. Whitten. They were handling that; you just wanted to pay after the fact, didn't you?

Mr. Kelly. I beg your pardon?

Mr. Whitten. You would just pay 50 percent of the cost after the fact, wouldn't you?

Mr. Kelly. We pay 50 percent of the cost after the plants have been destroyed. Yes, that's right, Mr. Chairman.

Mr. Whitten. Be that as it may. But we've got to reiterate that,—if the Congress appropriates for particular things, we mean to see that the money is used as specified by the Congress.

What do we need to do to be sure that money is to be used for the purpose for which provided and not used for a completely opposite thing? I can't see any connection—a project in Iowa, and putting it in Florida. Can you?

Mr. **Kelly**. Well, sir, there are certainly no policy——

Mr. **Whitten**. Unless it was because the Senator got beat in Iowa and you are trying to assist one in Florida?

Mr. **Kelly**. No, sir, I don't think so.

Mr. **Whitten**. You can't see that?

Mr. **Kelly**. I beg your pardon?

Mr. **Whitten**. You cannot see that?

Mr. **Kelly**. I think I misunderstood your question.

Mr. **Whitten**. I said unless it is that the Senator in Iowa was defeated and you were trying to assist one in Florida. You can't see that?

Mr. **Kelly**. I'll defer comment on that.

Mr. **Whitten**. I thought there was a weakness in the General Counsel's Office. [Laughter.]

You know the story about General Counsel, don't you?

Mr. **Kelly**. I think I do, Mr. Chairman. [Laughter.]

OGC FIELD OFFICES

Mr. **Whitten**. What are the Department's plans for the 22 OGC field offices and, in particular, the 7 field offices set up to provide on-site service for the Farmers Home Administration?

Mr. **Kelly**. We plan to continue to use all 22 field offices.

Mr. **Whitten**. With the increased activity in the FmHA program, do you think you could provide better service to the farmer if you expanded your field office program?

Mr. **Kelly**. We do not believe that an expansion of our field staff would be necessary to provide better service to farmers. Initial loan making, and supervision of accounts, is primarily a staffing problem for the Farmers Home Administration.

FOOD SECURITY ACT

Mr. **Whitten**. What additional workload do you expect as a result of the Food Security Act of 1985?

Mr. **Kelly**. There has been a substantial increase in the workload of the General Counsel's office as a result of the enactment of the Food Security Act of 1985 and subsequent amendments to that legislation. The 1985 Act required substantial changes in the commodity price support and production adjustment programs. Accordingly, a number of attorneys from this office have been involved in the formulation and drafting of regulations and contracts which are necessary to implement those programs. In addition, attorneys from this office have been involved in the formulation and drafting of regulations and contracts which are necessary to implement the Dairy Termination Program and Conservation Reserve Program. A substantial number of attorney staff-hours will be required with regard to both the further development of these programs as well as litigation which will arise during the conduct of the programs.

The workload of this office will be substantially increased in other areas as well as a result of the enactment of the Food Security Act of 1985. For example, attorneys from the General Counsel's Office are involved in the formulation and drafting of regulations in approximately thirteen areas with respect to programs administered by the Farmers Home Administration. Also, there are approximately twenty regulations which must be promulgated to implement amendments made by the 1985 Act to the Food Stamp and Child Nutrition Programs. In addition, substantial legal services are required with regard to: (1) the implementation of the "Clear Title" provisions of the 1985 Act, (2) the establishment of certain research and promotion programs which are authorized by the 1985 Act, (3) the promulgation of regulations related to amendments made to the Animal Welfare Act, and (4) the institution of formal rulemaking proceedings as the result of amendments made to the Agricultural Marketing Agreement Act of 1937 authorizing marketwide service payments.

CASES PENDING

Mr. Whitten. Please list for the record, by program area, the number of cases pending as of the end of fiscal years 1984 and 1985, and the current number pending.

Mr. Kelly. We will submit a list of the number of cases pending, by agency, as of the end of fiscal years 1984 and 1985, and those currently pending.

[The information follows:]

Cases in hand (backlog) as of September 30, 1984—(by agency)

Agricultural Marketing Service	1,277
Agricultural Research Service	32
Agricultural Stabilization and Conservation Service	3,194
Animal and Plant Health Inspection Service	430
Commodity Credit Corporation	515
Farmers Home Administration	29,332
Federal Crop Insurance Corporation	366
Federal Grain Inspection Service	4
Food and Nutrition Service	1,335
Food Safety Inspection Service	68
Food Safety and Quality Service	1
Foreign Agricultural Service	6
Forest Service	1,903
Office of the Inspector General	11
Packers and Stockyards Administration	362
Rural Electrification Administration	7
Soil Conservation Service	198
	39,041

Cases in hand (backlog) as of September 30, 1985—(by agency)

Agricultural Marketing Service	567
Agricultural Research Service	35
Agricultural Stabilization and Conservation Service	4,266
Animal and Plant Health Inspection Service	920
Commodity Credit Corporation	328
Farmers Home Administration	20,449
Federal Crop Insurance Corporation	618
Federal Grain Inspection Service	8
Food and Nutrition Service	993
Food Safety Inspection Service	85
Food Safety and Quality Service	1
Foreign Agricultural Service	7
Forest Service	2,664
Office of the Inspector General	12
Office of Transportation	8
Packers and Stockyards Administration	781

Rural Electrification Administration	15
Soil Conservation Service	218
	31,975

Cases in hand (current backlog) as of December 31, 1985—(by agency)

Agricultural Marketing Service	506
Agricultural Research Service	41
Agricultural Stabilization and Conservation Service	4,510
Animal and Plant Health Inspection Service	938
Commodity Credit Corporation	1
Farmers Home Administration	23,825
Federal Crop Insurance Corporation	642
Federal Grain Inspection Service	8
Food and Nutrition Service	939
Food Safety Inspection Service	95
Food Safety and Quality Service	1
Foreign Agricultural Service	8
Forest Service	2,794
Office of the Inspector General	15
Office of Transportation	8
Packers and Stockyards Administration	803
Rural Electrification Administration	17
Soil Conservation Service	246
	35,397

The above table includes administrative, civil, and criminal cases, nonjudicial foreclosures and cases where as OGC Attorney serves in a judicial capacity in a Departmental proceedings.

The above table of cases does not include work OGC's offices perform on legal matters which are not in litigation, such as preparing documents for loans, grants, and contracts; furnishing advice based on statutes or regulations; review or preparation or regulations or proposed legislation; attending meetings to negotiate solutions to avoid litigation; and similar matters.

PIK PROGRAM

Mr. **Whitten**. Was there a 1985 Solicitor's opinion that concluded that the export PIK program was authorized by the Commodity Credit Corporation Charter Act?

Mr. **Kelly**. We are unaware of any formal legal opinion being issued by the Office of the General Counsel in 1985 concerning the Commodity Credit Corporation's (CCC) authority to conduct the GSM-500 Export Enhancement Program. CCC has operated a number of programs over the years utilizing the authority of section 5(f) of the Commodity Credit Corporation Charter Act (15 U.S.C. 714c(f) under which CCC makes available CCC-owned commodities for the purpose of making private U.S. agricultural export competitive in the world market. The GSM-500 Export Enhancement Program is the most recent version of such a program.

Mr. **Whitten**. How many cases do you have pending on the PIK program?

Mr. **Kelly**. There are currently pending four lawsuits which involve various aspects of the 1983 Payment-in-Kind (PIK) Program. One of the lawsuits concerns the procedure utilized in establishing the farm program payment yield for purposes of making program payments, including PIK compensation. The second concerns the eligibility of a producer to participate in the PIK Program. The third action concerns the quantity of the commodity which a producer was obligated to deliver to the Commodity Credit Corporation under the program. In the remaining lawsuit, Texas cotton producers contend that under the PIK contract they were entitled to receive long grain rice rather than medium grain rice.

Mr. WHITTEN. Last year you proposed to reduce the staff years associated with the Farmers Home Administration field office by 24. This year you show the same number of staff years for OGC as last year, but you don't show any reimbursement from FmHA, FCIC, or the Forest Service. What are the Department's intentions for these reimbursable programs?

Mr. KELLY. In the fiscal year 1986 budget, we proposed to reduce staff years from 387 in fiscal year 1985 to 363 in fiscal year 1986. The reduction of 24 staff years was part of our effort to achieve the management savings of $1,960,000 from the adjusted fiscal year 1985 appropriation. In the fiscal year 1987 budget, we are proposing to stay at the fiscal year 1986 current staff year level of 388. This staff year level will enable us to continue the services provided to FmHA, FCIC, and the Forest Service; however, we are proposing to finance these services beginning in fiscal year 1987 through the direct appropriation instead of through reimbursements from those agencies.

WORKLOAD

Mr. WHITTEN. In the notes you state that the Office of General Counsel has 170 full-time employees in the field. How many of the full-time employees in the field are attorneys? Do you consider that workload excessive? Do you need additional attorneys in the field offices, given your statement that litigation is a minor part of the workload? Does that workload result in less than satisfactory resolution of some of these cases?

Mr. KELLY. The number of full-time attorneys in our field offices, as of March 31, 1986, is 102. Our litigation caseload for each field attorney as of January 1, 1986 was 354 cases. While this is a very heavy caseload, it is our intention to process these cases in an orderly way which will not make additional staffing necessary. Our ability to do this is aided by limitations on the Department of Justice, the courts, and administrative law boards to process cases. We consider one of our major contributions to be legal services which minimize the need for litigation. Due to such factors as program direction and interpretations by the courts of the national purpose and interests, there is no reliable basis for concluding that the investment of more time would be a primary factor in obtaining more satisfactory resolution of some cases.

ANIMAL AND PLANT QUARANTINE

Mr. WHITTEN. On page 5g-2 of the explanatory notes you reference a substantial increase in the number of administrative cases under the Animal and Plant Quarantine and related laws. With the passage of P.L. 97-461, this workload was expected—going from 269 in fiscal year 1984 to 499 in fiscal year 1985. How many additional staff years have you assigned to the program? In which programs did you reduce your staff years to accommodate this one?

Mr. **Kelly**. No additional staff years have been assigned to handle the increased number of administrative cases seeking civil penalties under the Animal and Plant Quarantine and related laws.

The responsibility for handling legal matters arising under the Animal and Plant Quarantine and related laws is assigned to the Regulatory Division of the Office of the General Counsel (OGC). That Division also has responsibility for handling legal matters arising under the Federal Meat Inspection Act, the Poultry Products Inspection Act, and various other statutes. In order to cope with the heavy-workload in that Division, the Assistant General Counsel in charge of the Division has assigned work and delegated additional authority to staff attorneys so that the legal work could be accomplished as soon as possible in an efficient and effective manner. However, because of the substantial increase of work with respect to matters arising under the Animal and Plant Quarantine and related laws, it has also been necessary for the Assistant General Counsel and his two Deputies, who are responsible for supervising all of the work of the Division, personally to handle many more matters than usual, rather than assigning them to staff attorneys and supervising such work. For example, during fiscal year 1985, more than one-half of the documents for publication in the Federal Register were reviewed and cleared by the supervisors, and they personally handled numerous criminal, civil and administrative cases, legislation, testimony, and legislative reports and other correspondence, and rendered many legal opinions. Furthermore, the Associate General Counsel for Regulatory and Marketing has also become personally involved in handling significant matters, such as programs involving international agreements and the transfer of the Animal Damage Control program from the Department of Interior to the Department of Agriculture.

These efforts by the attorneys have enabled the office to handle a substantial increase in administrative cases in fiscal year 1985 without reducing our efforts on other programs. However, there is a substantial backlog of administrative case work under the Animal and Plant Quarantine and related laws which is increasing. The number of such cases pending in OGC, under review or in litigation, on October 1, 1985, was 416. During the first five months of fiscal year 1986, OGC received an additional 188 cases and disposed of 141 of such cases. The number of such pending administrative cases as of March 1, 1986, was 463.

Most of the civil penalties under P.L. 97-461 have been imposed and collected by the Animal and Plant Health Inspection Service (APHIS) from violators of the laws at ports of entry in the United States. We are currently exploring with officials of the APHIS how its program of enforcement in the field can be expanded to include other activities, and APHIS is also considering other means of compliance, such as increased use of letters of warning and stipulations. If such other means of compliance are adopted and are successful, the legal workload in this area should be substantially reduced.

ANIMAL WELFARE ACT

Mr. WHITTEN. Also on page 5g-2 of the notes you state that you have worked to streamline the enforcement of the Animal Welfare Act by creating a new stipulation procedure to resolve minor violations. Please explain the stipulation procedure being used.

Mr. KELLY. Prior to the development of our new stipulation procedure, APHIS filed a complaint initiating a formal proceeding any time they wanted to seek a sanction for alleged violations of the Animal Welfare Act. These formal enforcement proceedings are time-consuming and expensive for all parties.

Now, under the stipulation procedures, APHIS compliance officials screen investigative files to identify cases involving less serious violations of the Act and regulations and refer these cases to us with a recommendation that we seek a stipulation. The General Counsel's office sends the alleged violator a notice explaining that APHIS believes he is in violation of the Act or regulations. The notice also contains a brief description of the alleged deficiencies. The notice letter is accompanied by a proposed stipulation that he may sign to resolve the matter without a formal proceeding. By signing the stipulation the licensee agrees to correct the deficiencies and to pay a civil penalty.

These streamlined procedures preserve all of the licensee's rights. The notice informs the licensee that if he declines to resolve the matter through stipulation, APHIS may file a complaint, in which case APHIS would provide the licensee with an opportunity for a hearing on the charges.

The stipulation procedure permits APHIS to achieve more speedy and effective enforcement of the Act, while allowing the licensee to resolve the matter quickly.

FCIC LITIGATION

Mr. WHITTEN. On page 5g-4 of the notes you state that FCIC litigation has increased significantly. Please explain in general terms the nature of the litigation and reasons for the increase in litigation.

Mr. KELLY. As a result of the enactment of the Federal Crop Insurance Act of 1980, the programs which were carried out by the Federal Crop Insurance Corporation (FCIC) entered a period of rapid expansion, due to the increased availability of coverage with respect to crops which were not insurable previously; the expansion of the existing programs into new counties; and the transition of the program delivery system and loss adjustment responsibilities from FCIC employees to private contractors.

Accordingly, because of the increase in FCIC coverage and increased participation by producers, the amount of litigation involving FCIC has increased significantly.

FMHA PROGRAMS

Mr. WHITTEN. You refer to the large amounts of staff time devoted to FmHA programs. Please provide an estimate of the percentage of total OGC staff time devoted to FmHA programs, with particular emphasis on FmHA efforts to service, counsel and otherwise assist delinquent farm borrowers.

Mr. KELLY. Thirty percent of attorney staff time is devoted to Farmers Home Administration programs. We have no basis for concluding the portion of this time that is related to delinquent FmHA borrowers.

RURAL TELEPHONE BANK

Mr. WHITTEN. You reference the controversy that has developed over the policies and procedures of the Rural Telephone Bank. Please describe the nature of the controversy and its potential impact on the borrowers and the Rural Telephone Bank.

Mr. KELLY. The Office of the General Counsel has been working with the Rural Electrification Administration to revise REA's policies regarding lien accommodations. It has been REA's practice to require as security for loans a first lien on all property of the borrower including property acquired after the loan is made. REA is considering a new policy regarding the accommodation of the Government lien in order to permit borrowers to undertake new types of business financed through private lending sources. This type of business is not within the programs for which REA can make loans.

The process of granting a lien accommodation requires a weighing of the rights the Government gives up against the benefits received by the Government. OGC has been closely involved in REA's analysis of this proposal.

Mr. WHITTEN. Please provide a list of the reviews OGC conducted on requests for proposals issued by USDA agencies for contracts.

Mr. KELLY. I will provide that for the record.

[The information follows:]

During fiscal year 1985, our office reviewed the following requests for proposals:

(1) RFP No. ARS-109-3K06-84—IBM Compatible Microcomputers.

(2) RFP No. FmHA-85-03—Rural Water Circuit Rider Technical Assistance.

(3) RFP No. ARS-78-3K06-84—Mailroom, Duplicating, and Distribution Services for BARC and NAL.

(4) RFP No. EMS-7-84—EEO Investigation Services.

(5) RFP No. FmHA-84-67—Technical Assistance-Labor Housing-Complexes for Farm Workers.

(6) RFP No. 33-M-APHIS-85—Fire Ant Insecticide Bait.

(7) RFP No. FmHA-85-07—Loan Servicing Demonstration Project.

(8) RFP No. ARS-05-3K06-85—Janitorial Services for the Beltsville Agricultural Research Center.

(9) RFP No. 00-54-3142-5-011—Lease of On-Line Storage Devices (Ft. Collins).

(10) RFP No. 00-85-R-7—IBM.

(11) RFP No. FmHA-85-11—Contingency Planning Assessment.

(12) RFP No. 00-85-R-26—Productivity Study of Computer and Financial Centers Operated by the Office of the Secretary.

(13) RFP No. ARS-28-3K06-85—Operations and Maintenance Support Services at the Southern Regional Research Center.

(14) RFP No. ARS-30-3K06-85—Operations and Maintenance Support Services at the Northern Regional Research Center.

(15) RFP No. FmHA-85-23—Systems Maintenance and Enhancement Software Services.

(16) RFP No. FNS-85-51LK—Food Stamp Store Investigation and Monitoring Study.

(17) RFP No. ARS-29-3K06-85—Operations and Maintenance Support Services at the Eastern Regional Research Center.

(18) RFP No. OIG-85-R-8—Integrated Office Automation System.

(19) RFP No. FmHA-85-28—Development of Multifunctional Workstation Training.

(20) RFP No. FNS-85-73LD—Food Stamp Program Policy Study

(21) RFP No. FNS-85-62LK—Summer Food Service Program Evaluation.

(22) RFP No. FNS-85-76LP-ADP—Maintenance.

(23) RFP No. ARS-44-3KO6-85—Research and Facility Support Services at the Western Human Nutrition Research Center.

(24) RFP No. FNS-85-74LP—Study of Child Care Food Program.

(25) RFP No. FNS-85-55WB-WIC Vendor Management Study.

(26) RFP No. FNS-85-89LK-1—Program Operations Study.

(27) RFP No. FNS-85-87JS-WIC—Administrative Funds Management Study.

(28) RFP No. FNS-86-2LK—Production of Food Stamp Coupons.

(29) RFP No. 00-85-R-100—Upgrades to Government-owned IBM Mainframe Computer Systems.

PATENTS

Mr. WHITTEN. Please provide a list of applications for patents reviewed by the Office of the General Counsel in fiscal year 1985. Also provide a list of the 44 patents obtained in fiscal year 1985.

[The information follows:]

PATENT APPLICATIONS REVIEWED BY OGC
IN FY 1985

DATE REC'D	SOURCE	INVENTOR	TITLE	DATE FILED	SERIAL NO.
10/1/84	U. ILL.	REBEIZ	MODULATION OF SIZE OF PHOTOSYNTHETIC UNIT	-----	-----
10/11/84	FS	JOHNSON	SELF-RELEASING COUPLING	11/1/85	794,028
10/11/84	USDA & U. MD.	KAZMI	IDENT. OF CAMPYLOBACTER	-----	-----
10/22/84	U. WASH.	NESTER	DNA MARKER	4/18/83	485,813
11/13/84	FS	KLUNGNESS	SEPARATING WET & NON-WET PARTICLES	11/13/84	670,139
11/15/84	CORNELL	KNEEN	LEGUME MUTANT	-----	-----
11/6/84	SRRC	BAILEY	ANTI-MICROBIAL COMPOUND	11/20/84	673,299
11/29/84	FS	MEDINA	PROFILE METER	[DROPPED	2/15/85]
11/29/84	NRRC	SODERHOLM	FIELD CONTROL FOR WIND DRIVEN ALTERNATORS	12/11/84	680,615
12/5/84	FS	WINANDY	NONDESTRUCTIVE SEGMENT DENSITY APPARATUS	-----	-----
12/12/84	ERRC	ALDRICH	PHEROMONE FOR SPINED SOLDIER BUG	12/13/84	681,394
12/17/84	ERRC	GAMBLE	DIAGNOSTIC REAGENT FOR SWINE TRICHINOSIS	12/18/84	683,284
12/26/84	SRRC	HEDIN	SEX ATTRACTANT PHEROMONE OF SOUTHWESTERN CORN BORER	10/8/85	785,639
1/17/85	WRRC	VARGAS	MASS REARING OF FRUIT FLY	1/29/85	696,222
1/25/85	NRRC	BITNER	ELECTRONIC TEMP. EQUALIZER	1/29/85	696,274
1/13/85	U.ILL	REBEIZ	PHOTODYNAMIC INSECTICIDES	-----	-----

2/4/85	SRRC	DALE	MULTI-PHASE AGRICULTURAL HERBICIDE GRANULE	-----	-----
2/4/85	U.ILL	GARST	3-SUBSTITUTED FURANS AND HETEROCYCLICS	-----	-----
2/12/85	WRRC	YOKOYAMA	INCREASE BIOMASS IN PLANTS	2/15/85	701,660
2/12/85	FS	DANIELSON	DOUBLE X MULTIPLE BANDMILL	-----	-----
2/15/85	FS	EADS	ENVIRONMENTAL SAMPLING	2/3/86	-----
2/15/85	FS	KANGAS	TREE CUTTING PLANTER	-----	-----
2/21/85	SRRC	CARLSON	DIOLEFIN PHEROMONE MIMICS	2/22/85	704,442
3/1/85	WRRC	JOCHIM	MONOCLONAL ANTIBODIES TO EPIZOOTIC HEMORPHAGIC DISEASE ANTIGEN	3/5/85	708,613
3/15/85	COL.ST.U.	DUNBAR	ANTIBODY FOR DETECTION AND QUANTIFICATION OF ATRAZINE	-----	-----
3/14/85	SRRC	MAROIS	PELLETS CONTAINING FUNGI	3/20/85	713,733
3/26/85	NRRC	BURKHOLDER	SYNTHETIC PHEROMONE 5-HYDROXY-4-METHYL-3-HEPTANONE	3/27/85	716,798
4/9/85	FS	AROLA	DOUBLE DISC CHUNKER	5/16/85	734,527
4/22/85	SRRC	REIF	ELECTROINERTIAL AIR CLEAN.	4/22/85	724,958
4/17/85	AMS	HARRIS	OVA HARVESTER	4/17/85	724,013
4/17/85	SRRC	DICKERSON	BOLL WEEVIL TRAP	5/16/85	734,647
4/29/85	ERRC	PETERSON	CONTINUOUSLY MOVING HARVESTER FOR TREE CROPS	5/9/85	732,320
4/24/85	U.ORE.ST	LEONG	VACCINE FOR VIRAL INFECTION OF FISH	-----	-----
5/9/85	FS	TUOMI	FLANGE INTERLOCK BLDG. SYSTEM	-----	-----
5/9/85	FS	BILLER	RADIO CONTROLLED LOGGING SYSTEM	-----	-----
5/16/85	NRRC	FANTA	OIL-ABSORBENT CELLULOSIC DERIVATIVES	5/29/85	738,815
5/20/85	NRRC	ANDERSON	CONTROL OF EASTERN BLACK NIGHTSHADE WITH FUNGAL PATHOGEN	5/29/85	738,707

5/29/85	FS	BILLER	IMPROVED CHOKER HOOK	[DROPPED 10/15/85]	
5/29/85	FS	SETTERHOLM	PRESS DRYING FIBROUS MATS	-----	-----
4/24/85	ARS	TEASDALE	USING METHYL ISOCYANATE AGAINST DORMANT WEED SEEDS	[DROPPED 5/85]	
3/-/85	NIH	SALK INST.	VACCINE FOR VESICULAR STOMATITUS VIRUS	-----	-----
5/31/85	ERRC	LEFCOURT	ALARM FOR DETECTING A DECREASED SAMPLE FLOW RATE	-----	-----
6/6/85	WRRC	KING	PREDICTING ACCEPTABILITY OF COARSELY GROUND BEEF	6/7/85	742,485
6/24/85	SRRC	LEWIS	PELETS CONTAINING FUNGI AND NUTRIENTS	6/28/85	749,906
6/27/85	SRRC	HARPER	IMPARTING SMOOTH-DRY AND FLAME RETARDANT PROPERTIES TO SYNTHETIC-CELLULOSE BLENDS	6/28/85	749/905
7/9/85	CARNEGIE INST.	FEDOROFF	TRANSPOSABLE ELEMENTS AND PROCESS OF USING SAME	4/3/84	596,224
7/12/85	FS	BERGSTROM	INSTRUMENT TO ESTIMATE THE WEIGHTS OF GREEN TREES AND LOGS	8/9/85	764,040
7/11/85	FS	BILLER	LOCKING CONE FOR LOGGING CARRIAGE	-----	-----
7/16/85	WRRC	COUEY	A QUARANTINE SYSTEM FOR PAPAYA	7/22/85	757,396
7/22/85	NRRC	DA SILVA	PUNCH PLANTER FOR VARIABLE SEED SPACING	7/26/85	759,385
7/26/85	SRRC	WEISS	ELECTRODYNAMIC SEPARATION	7/31/85	761,113
7/6/85	SRRC	VANDER MEER	CONTROL OF INSECTS	7/26/85	758,856
7/25/85	SCS	ATKINSON	ANTI-SEEP COLLAR FOR PVC OR PLASTIC PIPE	[RTS. DETERMIN.]	
7/29/85	ROCKERFELLER UNIV.	CASHMORE	CHIMAERIC GENES & THE EXPRESSION THEREOF	-----	-----
7/26/85	FS	MARTIGONI	NOCTUID-ADAPTED VIRULENT STRAIN OF DOUGLAS-FIR TUSSOCK MOTH BACULOVIRUS	-----	-----

8/2/85	U.GEO.	ALLISON	MICROPROSSESSOR-BASED LASER TELEMETRY SYSTEM FOR REMOTE DATA COLLECTION	-----	-----
8/19/85	U.ARIZ	COATES	SEED HARVESTING DEVICE	-----	-----
8/26/85	FS	SPRINGER	SALTS OF MONOPEROXYSULFURIC ACID	-----	-----
8/26/85	SRRC	WALKER	MYCOHERBICIDE-CONTAINING PELLETS	9/6/85	773,264
8/28/85	OFF.TRANS.	ASHBY	END PLUG FOR BEE SHIPPING TUBES	-----	-----
9/10/85	U.HAWAII	ALVAREZ	HYBRIDOMA-PRODUCING MONOCLONAL ANTIBODIES	-----	-----
9/10/85	SRRC	FRICK	DYED WRINKLE RESISTANT & DURABLE-PRESS COTTON	9/11/85	774,698
9/16/85	TEX TECH	GOODIN	IN VITRO PRODUCTION OF COTTON FIBERS	-----	-----
9/23/85	WRRC	BILSLAND	FILAMENT SEED THRESHER	9/25/85	770,958
9/19/85	FS	CONNER	BONDING WOOD WITH CELLULOSE SOLVENTS	11/29/85	802,902
9/24/85	FS	CONNER	PHENOL-FORMALDEHYDE RESINS MODIFIED WITH WOOD-DERIVED CARBOHYDRATE	-----	-----
9/26/85	FS	SETTERHOLM	AIR-INFLATABLE SILICONE RUBBER MOLDS FOR PRESS DRYING SPACEBOARD	-----	-----

PATENTS OBTAINED IN FY 1985

PATENT NO.	ISSUE DATE	INVENTOR	TITLE
4,535,248	8/3/85	SCHADE	METHOD FOR DETECTING AFLATOXIN IN ALMONDS
4,539,008	9/3/85	ANDREWS	DURABLE-PRESS LOW FORMALDEHYDE RELEASE CELLULOSIC TEXTILES
4,488,878	12/18/84	ANDREWS	DURABLE-PRESS LOW FORMALDEHYDE RELEASE CELLULOSIC TEXTILES
4,532,327	7/30/85	POWELL	SESBANAMIDE FOR TREATING LEUKEMIC TUMORS
4,478,728	10/23/84	HOPKINS	ENHANCED FERMENTATION OF XYLOSE TO ETHANOL
4,525,354	6/25/85	PATIL	BACTERIAL PHYTOXIN FOR LEAF SCALD
4,474,816	10/2/84	WILSON	CONTROL OF MYCOTOXIN
4,493,854	1/15/85	FRIEDRICH	PRODUCTION OF DEFATTED SOY BEAN PRODUCTS
4,534,856	8/13/85	WEISS	ELECTRODYNAMIC SEPARATION
4,541,231	9/17/85	GRAHAM	YARN REINFORCED WITH GLASS FIBER CORE
4,561,294	12/31/85	WILKINSON	CONTROL OF SOIL MATRIC POTENTIAL
4,483,689	11/20/84	WELCH	ABRASION-RESISTANT DURABLE-PRESS ACRYLIC FINISHES
4,478,096	10/23/84	HEILAND	SHIELDED SNIFFING DEVICE
4,540,033	9/10/85	WHER	CONTINUOUS TREE HARVESTER
4,515,780	5/7/85	LAURENT	ANIMAL NUTRITION
4,522,838	6/11/85	BUTTERY	2-ACETYL-1-PYRROLINE FOR FLAVORING FOODS
4,530,935	7/23/85	MC GOVERN	INSECT REPELLANTS

4,500,004	2/19/85	PETERS	TWO LOADLINE LOGGING CARRIAGE
4,503,082	3/5/85	CAMIRAND	REDUCING SODIUM CONTENT AND INCREASING POTASSIUM CONTENT OF FOODS
4,527,000	7/2/85	CARLSON	DIOLEFIN PHEROMONE MIMICS
4,521,120	6/4/85	BLANK	MEASURING RATE OF SPREAD OF WOODLAND FIRES
4,474,991	10/2/84	GUSS	SYNTHETIC PHEROMONES
4,483,950	11/20/84	FANTA	MODIFIED STARCH EXTENDERS
4,474,755	10/2/84	NEAL	BAGWORM MOTH ATTRACTANT
4,526,586	7/2/85	SCHWAB	VEGETABLE OIL DIESEL FUEL
4,489,161	12/18/84	PAPANIZAS	STRAIN OF *TRICHODERMA VIRIDE*
4,495,207	1/22/85	CHRISTIANSON	FOOD-GRADE CORN GERM PRODUCT
4,488,996	12/18/84	SEROTA	RAPID PRODUCTION OF ISOPROPENYL ESTERS
4,539,648	9/3/85	SCHATZKI	DETECTION OF AGRICULTURAL CONTRABAND IN BAGGAGE
4,530,834	7/23/85	MC CABE	ENTOMOPATHOGENIC FUNGAL INSECT CONTROL AGENT
4,508,736	4/2/85	BEAN	RICE FLOUR
4,505,277	3/19/85	KLESIUS	IMPLANTATION DEVICE FOR COLLECTION OF MONOCYTES
4,477,389	10/16/84	CHEN	POLYHALOGENATED PHENYL ISOCYANATES
4,478,859	10/23/84	FOX	EMULSIFIED MEAT PRODUCTS
4,516,385	5/14/85	LENKER	WRAPPING MACHINE
4,482,728	11/13/84	JURD	POLYBENZYLPHENOLS AND BENZYL-3,4-METHYLENEDIOXY BENZENES IN INSECT POPULATION CONTROL

4,478,328	10/23/84	HEILAND	AUTOMATIC HIDE PROCESS
4,508,781	4/2/85	YAGI	FLUORINATION
4,517,080	5/14/85	DELOACHE	ENCAPSULATION IN RESEALED ERYTHROCYTES
4,480,040	10/30/84	OWENS	RAPID DIAGNOSIS OF VIROID DISEASES & VIRUSES
4,479,286	10/30/84	BROWN	COMMON REAGENT ENZYME IMMUNOASSAY
4,497,898	2/5/85	ANDERSON	AUTOMATIC PROTEIN & FAT ANALYZER
4,477,384	10/16/84	SEROTA	ALPHA-SUBSTITUTED ACRYLIC ACIDS
4,513,528	4/30/85	DALE	ROPE WICK APPLICATOR

Mr. WHITTEN. Please provide the funding level you requested of the Secretary, the level the Secretary requested of OMB, and the OMB allowance for fiscal year 1987.

Mr. KELLY. The Office of the General Counsel submitted a request of $18,235,000 including the cost of reimbursable activities to the Secretary. The request to OMB was $17,697,000, and the OMB allowance was $17,430,000.

OPERATING EFFICIENCIES

Mr. WHITTEN. Among other changes, you are proposing a decrease of $158,000 as a result of operating efficiencies in carrying out your responsibilities. Please identify those efficiencies.

Mr. KELLY. We will curtail cost in all discretionary categories such as overtime, cash awards, travel, training, equipment rental and maintenance, supplies and subscriptions. Travel will be performed only when there is no other alternative in resolving legal issues. Maintenance contracts will be carefully reviewed and we will be working with our Procurement Office to determine if those services can be obtained more economically. Subscriptions will be renewed only on material that we cannot afford to do without in order to continue the same level of legal support we have in the past.

Mr. WHITTEN. Please explain why the fiscal year 1987 estimate for communications, utilities and other rent is $100,000 less than the fiscal year 1985 level.

Mr. KELLY. When we adjusted the object class schedules for fiscal years 1985 and 1986 to include the total cost of the reimbursable programs that are proposed for conversion to appropriated funding for fiscal year 1987, we included approximately $50,000 in rental payments to GSA that will not be paid from appropriations in fiscal year 1987. We anticipate that the remaining reduction will be accomplished as part of a concerted effort to reduce our administrative costs, particularly in the areas of equipment rental and telephone costs. Equipment rental saving will be realized by reviewing our need for equipment, eliminating some rentals. Telephone costs will be reduced or eliminated through the use of conference calls and teleconferencing, where possible, or through other cost saving alternatives. Similar cost saving measures will be instituted in other cost categories within this object class.

Mr. WHITTEN. Please provide for the record the dollar amount of salaries and expenses and staff years related to food stamp work in fiscal years 1984 and 1985. How much do you anticipate spending in 1986 and 1987?

Mr. KELLY. We will be pleased to supply that information for the record.

[The information follows:]

FOOD STAMP PROGRAM

	Fiscal year—			
	1984	1985	1986	1987
Salaries and expenses	$702,297	$698,743	$687,091	$739,222
Staff years	15.5	16.0	16.0	16.0

OGC OPINIONS

Mr. **Whitten**. Did your office advise the Department that it had the authority to reprogram funds appropriated to the Under Secretary for Small Community and Rural Development for rural development grants in the fiscal year 1986 Continuing Resolution? If so, please provide a copy of the opinion.

Mr. **Kelly**. On January 9, 1986, I submitted a memorandum to the Under Secretary stating a number of options available to him to provide for shutdown costs for the Office of Rural Development Policy. Among the options identified was the use of the rural development grant funds for this purpose. I will be happy to provide a copy of that memorandum for the record.

[The information follows:]

United States
Department of
Agriculture

Office of
General
Counsel

Washington,
D.C.
20250

January 9, 1986

TO: Frank W. Naylor, Jr.
Under Secretary for Small Community
and Rural Development

FROM: James Michael Kelly
Associate General Counsel
JMKelly

SUBJECT: Office of Rural Development Policy -- Funding of Shutdown Costs

I have discussed with Kathleen Lawrence, Bill Phillips, Steve Dewhurst, Bill Riley, and others the problems confronting the Department as it carries out the intent of the Congress that the Office of Rural Development Policy (ORDP) be abolished. As you know, no funds were provided for ORDP in the FY 1986 appropriations measure for USDA. As you also know, certain costs are necessarily incurred when an organization is abolished and its employees are separated from Federal service under reduction in force (RIF) procedures. Those costs include severance pay, lump sum payments for annual leave, and other costs associated with closing down an agency. I understand that most ORDP employees have been detailed to other agencies reporting to you, but that they will be separated effective at the close of business on Friday, January 17. While some ORDP employees may find other Federal positions and thus reduce the immediate costs to the Department which severance would entail, it is likely that some will fail to find other Federal employment.

Since the Congress provided no funds for ORDP for FY 1986, and no funds specifically for shutdown costs, a serious question has arisen as to the source of funds for payment of the costs identified above. I believe that the Department has the following options in this regard:

1. Transfer Function to Farmers Home Administration. By Secretary's Memorandum, the Secretary's responsibility under the law for rural development policy issues, presently delegated to you and by you to ORDP, could be reassigned to the Farmers Home Administration (FmHA). The employees would likewise be transferred with the function. This would have to be accomplished promptly, before the ORDP employees go off the payroll. FmHA salaries and expenses (S&E) funds could then be utilized to pay the costs incurred when the reduction in force is accomplished and the employees are separated. The employees should be transferred as a unit, and the abolishment of the function and RIF procedures could be targeted to that unit in order to avoid granting ORDP employees "bumping rights" over other FmHA personnel. Use of FmHA funds could of course cause further funding problems of a similar kind later in the fiscal year.

2. Use of Rural Develoment Grant Funds. In enacting the Continuing Resolution making further appropriations for many Federal agencies for the balance of FY 1986, P.L. 99-190, December 19, 1985, the Congress incorporated the provisions of the conference report version of H.R. 3037, the FY 1986 appropriations measure for Agriculture, Rural Development, and Related Agencies. Included in that measure was an appropriation

> /F/or necessary salaries and expenses for the Office of the Under Secretary for Small Community and Rural Development to administer programs under the laws enacted by the Congress for the Farmers Home Administration, Rural Electrification Administration, Federal Crop Insurance Corporation, and rural development activities of the Department of Agriculture, including $375,000 for grants pursuant to the Consolidated Farm and Rural Development Act, as amended (7 U.S.C. 1926(a)(11) and 7 U.S.C. 1932(c)), $790,000. (Emphasis supplied.)

The Secretary's authority under the Consolidated Farm and Rural Development Act (Con Act) to make the grants in question is discretionary in nature. While the Congress, in both the quoted appropriations language and the Statement of Managers accompanying H.R. 3037, made clear its intention that the $375,000 provided for rural development grants be utilized for that purpose, the Department could conclude that the mandatory payments under law to separated ORDP employees are a higher priority expenditure. The grant funds, when combined with any other funds which may be available for this purpose, could be utilized to provide all or most of the funds needed for termination benefits and other shutdown costs.

3. Seek Supplemental Appropriation for ORDP Shutdown Costs. While it will not be easy to gain Administration approval for any supplemental appropriation requests for FY 1986, apparently a supplemental is likely to be submitted for certain Commodity Credit Corporation (CCC) requirements sometime in February. The Department could conclude that, since no obvious source exists for ORDP shutdown costs, a supplemental appropriation request is necessary and none of the required benefits for employees can be paid until such time as additional funds are made available by the Congress. /Alternatively, the grant funds identified above could be utilized for shutdown costs, and then a supplemental could be sought to replace those funds so that the grants could be made as intended./

4. Separate Employees Without Paying Benefits Required by Law. Federal personnel law mandates the payment of the benefits and costs identified above when employees are separated from Federal service pursuant to a RIF. In the event that no funds are available to the Department for this purpose, the

separated employees will have a legal basis for asserting claims against the United States for the benefits to which they are entitled. The separated employees would surely prevail in their actions for these benefits. Payments would be further delayed, of course, would include monies for attorneys' fees and interest, and would be paid from the Judgment Fund administered by the Department of Justice and the General Accounting Office rather than from USDA appropriations. The Department could conclude that, in the absence of appropriations available for this purpose, this is the course to follow. However, this course would likely entail substantially greater costs to the United States, and the public perception of this approach would likely be unfavorable.

I will be pleased to discuss these matters with you further if you wish to do so.

Mr. **Whitten**. Did your office advise the Department that it should use the program levels authorized for FmHA farm programs in the 1985 Food Security Act rather than the levels appropriated for these programs in the fiscal year 1986 Continuing Resolution? Please provide a copy of the opinion.

Mr. **Kelly**. On January 22, 1986, we provided a memorandum which contained a legal analysis of this issue. We will be happy to provide a copy of that memorandum for the record.

[The information follows:]

United States Department of Agriculture
Office of General Counsel
Washington, D.C. 20250

22 JAN 1986

TO: Stephen B. Dewhurst, Director
Office of the Budget and Program Analysis

FROM: James Michael Kelly James Michael Kelly
Associate General Counsel

SUBJECT: FY 1986 Loan Limitation for FmHA Insured Operating Loans

You have asked whether the loan limitation for the Farmers Home Administration (FmHA) Insured Operating Loans for fiscal year 1986 is the limitation of $2.7 billion contained in the Agriculture, Rural Development, and Related Agencies Appropriation Act, 1986, or the limitation of $1.74 billion contained in section 1317 of the Food Security Act of 1985. Based upon the analysis and for the reasons stated below, we believe the $1.74 billion limitation stated in the Food Security Act is controlling and must therefore be followed.

The Agriculture, Rural Development, and Related Agencies Appropriation Act, 1986 (hereinafter referred to as the "1986 Appropriation Act"), was enacted on December 19, 1985, by section 101 of the Continuing Appropriation, 1986 (Pub. L. No. 99-190). The Food Security Act of 1985 (hereinafter referred to as the "Food Security Act"), (Pub. L. No. 99-198) was enacted on December 23, 1985. As explained below, the Congress in both enactments purported to express limitations on the amount of loans which may be made during fiscal year 1986 from the Agricultural Credit Insurance Fund for FmHA insured operating loans.

Section 125 of the Agricultural Credit Act of 1978, Pub. L. No. 95-334, enacted August 4, 1978, amended the Consolidated Farm and Rural Development Act (hereinafter referred to as the "Con Act"), by adding a new section 346 (7 U.S.C. 1994), to provide:

> Effective October 1, 1979, the aggregate principal amount of loans under the programs authorized under each subchapter of this chapter during each three-year period thereafter shall not exceed such amounts as may be authorized by law after August 4, 1978. There shall be two

> amounts so established for each of such programs and for any maximum levels provided in appropriation Acts for the programs authorized under this chapter, one against which direct and insured loans shall be charged and the other against which guaranteed loans shall be charged, with or without authority for the Secretary to transfer amounts between such categories within a given program for more effective administration.

The avowed purpose of the section was to establish, beginning fiscal year 1980, loan limits for each of the loan programs under the Con Act. The Conference Report on the Agricultural Credit Act of 1978 provided that the "aggregate principal amount of loans made, insured, or guaranteed under any program during any [3] year period may not exceed the amount authorized by law for that period. Two amounts will be established for each program, one against which direct and insured loans will be charged, and one against which guaranteed loans will be charged."

Emphasis supplied.

House Report No. 95-1344, 95th Cong. 1st Sess. pp. 29-30.

Section 4 of Pub. L. No. 96-438, enacted October 13, 1980, amended the Con Act by redesignating the above section as subsection (a) of section 346 (7 U.S.C. 1994(a)), and by adding a new subsection (b) to section 346 (7 U.S.C. 1994(b)), to read in part:

> (b)(1) Loans for each of the fiscal years 1980, 1981, and 1982 are authorized to be insured, or made to be sold and insured, or guaranteed under the Agricultural Credit Insurance Fund as follows:
>
> (A) real estate loans, ***
>
> (B) operating loans, $1,200,000,000 of which $1,150,000,000 may be for insured loans and $50,000,000 may be for guaranteed loans with authority to transfer 25 per centum of such amounts between categories;
>
> * * * * *

Emphasis supplied.

In discussing the provision, Senate Report No. 96-168, 96th Cong. 2nd Sess. p. 4 provided:

> Section 346 of the act provides that, effective October 1, 1979, the aggregate amounts of loans made through the loan programs under the act during each 3-year period thereafter may not exceed lending levels established by law. This provision creates the need for legislation every 3 years setting lending levels for the loan programs under the act.
>
> Section 346 also provides that two amounts must be established for each loan program under the act -- one against which direct and insured loans will be charged, and one against which guaranteed loans will be charged -- with or without authority for the Secretary of Agriculture to transfer amounts between categories within a given program for more effective administration.
>
> Under the requirements of section 346, legislation to establish authorized lending levels for the programs under the act for the initial 3-year period -- during fiscal years 1980, 1981, and 1982 -- should be enacted before the beginning of fiscal year 1980.
>
> S. 985 meets this need by amending section 346 of the act to add a new subsection establishing lending levels for the loan programs under the act for each of fiscal years 1980, 1981, and 1982.

Under the heading "Agricultural Credit Insurance Fund" in the Farmers Home Administration appropriation contained in the 1986 Appropriation Act, enacted December 19, 1985, the following is provided:

> *Loans may be insured*, or made to be sold and insured, under this fund in accordance with and subject to the provisions of 7 U.S.C. 1928-1929, or guaranteed, as follows: real estate loans, $682,000,000, including not less than $650,000,000 for farm ownership loans of which $250,000,000 shall be guaranteed loans; and not less that $28,000,000 for water development use, and conservation loans of which $6,000,000 shall be guaranteed loans; operating loans, $4,400,000,000 of which $1,700,000,000 shall be guaranteed loans; and emergency insured and guaranteed loans in amounts necessary to meet the needs resulting from natural disasters.
>
> * * * * *

Emphasis supplied.

Section 1317 of the Food Security Act, enacted December 23, 1985, amended subsection (b) of the Con Act to read in part:

(b)(1)(A) For each of the fiscal years ending September 30, 1986, through September 30, 1988, real estate and operating loans may be insured, made to be sold and insured, or guaranteed in accordance with subtitles A and B, respectively, from the Agricultural Credit Insurance Fund established under section 309 in an amount equal to $4,000,000,000, of which not less than $520,000,000 shall be for farm ownership loans under subtitle A.

(B) Subject to subparagraph (C), such amount shall be apportioned as follows:

(i) For the fiscal year ending September 30, 1986 --

(I) $2,000,000,000 for insured loans, of which not less than $260,000,000 shall be for farm ownership loans; and

(II) $2,000,000,000 for guaranteed loans, of which not less than $260,000,000 shall be for guarantees of farm ownership loans.

* * * * *

Hence, the 1986 Appropriation Act enacted December 19, 1985, has a loan limit for insured operating loans of $2,700,000,000, while the Food Security Act enacted December 23, 1985, has a loan limit for insured operating loans of $1,740,000,000.

At first blush, the issue appears to be whether an authorization for an appropriation which passes after an appropriation act has been passed, has the effect of reducing the appropriation to the level of the authorization. If that were the case, we would be constrained to say that the appropriation would govern regardless of when the authorization passed. This would be so since an authorization for an appropriation does not appropriate funds, but rather sets a limit on the amount of funds the Congress may appropriate. An appropriation act may appropriate more or less than the amount contained in the authorization act. Cf. 36 Comp. Gen. 240 (1956).

However, we note that the 1986 Appropriation Act, similar to appropriation acts in the past, does not appropriate funds for Insured Operating Loans, but rather sets a loan level for such loans out of a revolving fund, the Agricultural Credit Insurance Fund.

Prior to its being amended section 346(b) of the Con Act, 7 U.S.C. 1994(b) provided that loans for each of fiscal years

1980, 1981, and 1982 were authorized to be insured, or made to be sold and insured, or guaranteed. The appropriation acts for fiscal years 1980-1982, as well as the 1986 Appropriation Act, provided that "Loans may be insured, or made to be sold and insured..." The authorization act, thus, authorized a loan limit, as opposed to authorizing an appropriation, said loan limit to be set out in an appropriation act.

Section 1317 of the Food Security Act amended section 346(b) to provide that "operating loans may be insured". It is important to note that Congress in this amendment departed from its previous lexicon in the authorization act of "authorizing" loans to be insured. The effect of this amendment may be viewed as then being both the authorizing act and the appropriating act; thus, no longer requiring a provision in an appropriation act to carry out the authorization. Thus, unlike the normal authorization/appropriation acts found in the appropriation process, the statutes in question may be viewed more appropriately as expressions of statutory authorities. Analyzed in this light, the traditional rules of statutory construction are brought into play. In this regard, while there is a presumption against the repeal of prior laws by implication, Morton v. Mancari, 417 U.S. 535, 549 (1974), the presumption is overcome by a showing that "the two acts are irreconcilable, clearly repugnant as to vital matters to which they relate, and so inconsistent that the two cannot have concurrent operation." Squillacote v. United States, 562 F.Supp. 338, 343 (E.D. Wisc. 1983), modified, 739 F. 2d 1208 (7th Cir. 1984), rehearing denied, 747 F.2d 432 (1984). It is apparent here that the two statutes are clearly repugnant. On the basis of such statutory construction, the provisions of the Food Security Act govern.

Had the Congress not amended section 346(b), or had it not passed any authorization limit, the limit provided in the 1986 Appropriation Act, while subject to a point of order during consideration of the appropriation since there was no authorization, would have governed.

We note that if a limit on operating loans in the 1987 Appropriation Act exceeds the limit provided in section 346(b), it would govern, if a point of order is not raised and sustained, under the principle that the enactment which is later in time prevails.

You also raise the question as to the appropriate loan limitation for farm ownership loans. The 1986 Appropriation Act establishes a floor of $650,000,000 for farm ownership loans, and mandates $250,000,000 for guaranteed farm ownership loans. The 1986 Appropriation Act thereby in effect establishes a floor of $400,000,000 for insured farm ownership loans.

The Food Security Act establishes floors of $260,000,000 for guaranteed farm ownership loans and $260,000,000 for insured farm ownership loans.

As discussed above, in the absence of a clear expression of Congress to repeal a law previously enacted, we are bound to harmonize statutes before concluding that a later enacted statute repeals by implication the earlier enacted one.

With the exception of the 1986 Appropriation Act provision requiring $250,000,000 for guaranteed farm ownership loans, all the provisions in question establish floors, not loan ceilings. With respect to insured farm ownership loans, giving effect to the 1986 Appropriation Act floor of $400,000,000 does not create any disharmony with the Farm Security Act, because the $400,000,000 figure is not less than the floor of $260,000,000 established for such loans in the Farm Security Act. With respect to guaranteed farm ownership loans, there is an irreconcilable conflict because giving effect to the 1986 Appropriation Act mandate of $250,000,000 would result in the amount of loans being below the floor of $260,000,000 established in the Farm Security Act. Since the Farm Security Act is later enacted, the $260,000,000 level must prevail.

By a parity of reasoning, the same analysis would apply to other limitations, or floors, regarding the amount of loans which may be made from revolving fund accounts during fiscal year 1986, where differing amounts have been expressed in the two enactments in question.

Mr. WHITTEN. Please explain why there are no cost estimates for benefits for former employees in the explanatory notes.

Mr. KELLY. The Object Classification 13 (Benefits to Former Personnel) relates to severance or unemployment compensation. OGC has had no such costs in FY 1985 and has had none so far in FY 1986. Since we planned no severance actions in 1986 or 1987, we did not budget expenditures for this cost category.

Mr. WHITTEN. Please display by program the 3,440 nonjudicial foreclosure cases that OGC worked on in fiscal year 1985.

Mr. KELLY. The 3,440 nonjudicial foreclosure cases worked on in fiscal year 1985 were for the Farmers Home Administration. No other USDA agency has a loan program which merits use of this method of foreclosure.

Mr. WHITTEN. Mrs. Smith.

STAFFING FOR FMHA ACTIVITIES

Mrs. SMITH. Thank you, Mr. Chairman, and welcome to all of you. I am a little intimidated to be surrounded by all these lawyers, but I do have some questions that I am very much interested in.

I'm a little frightened, at the top of page 3 in your testimony, when I see that you are expecting a higher level of staff efforts devoted to servicing, counseling, and debt collection of FmHA loans.

Now, we are very much aware out in the midwest; where we have been in such an agricultural depression, that we have not allowed any foreclosures by FHA in our area. Now this ban has been lifted, and our people are in a state of real fear about being foreclosed on and thrown off their land. I am wondering, do you have anything to do with this policy? What are you talking about here when you say you have to increase your level of staff efforts in regard to debt collection?

Mr. KELLY. Mrs. Smith, now that the temporary restraining order and the injunction against the Department have been lifted, and the Farmers Home Administration is free, where it deems the circumstances warrant, to initiate foreclosure proceedings and debt collection proceedings, then, of course, they need legal assistance from our office in that effort.

The General Counsel's Office, of course, is not involved in those determinations as to which circumstances require foreclosure. But when those steps are taken, whether it is a state in which non-judicial foreclosure is available, or whether it's a judicial foreclosure proceeding, the attorneys in our field offices must be involved in that process. And that is why we anticipate a higher level of activity.

Mrs. SMITH. Well, you know, we are also very much concerned with the Farm Credit Administration because they foreclose on farmers—they have been charging those farmers over 13 percent interest. Moreover, they take the land over and then they loan another fellow money at 10 percent to purchase this land. You know, that is the wrong policy. We feel that you ought to leave the fellow on the land and give him a chance to work out of this.

Do you folks have any role in that kind of decision?

Mr. KELLY. Not with respect to the Farm Credit Administration.

Mrs. **Smith**. No, but I mean in FmHA, to that same kind of a policy being implemented in FmHA.

What do you do when you take over and foreclose on a farmer—what do you do about the management of that land? Do you let that farmer have a chance to stay?

Mr. **Kelly**. Mrs. Smith, if I may, I am going to ask Mr. Fowler to respond to that.

Mr. **Fowler**. Mrs. Smith, first of all, the General Counsel's Office field lawyers are involved in advising Farmers Home Administration whether or not the case they present to us merits foreclosure. And so there may be legal reasons why foreclosure would not be appropriate, and we would so advise them.

With respect to leaving the farmer on the land, that decision is basically made prior to a decision to foreclose.

I might also say that I believe you know Farmers Home's current policy, since the Coleman injunction has been lifted, is to only start with those more serious cases, and I believe the notices that were sent to people to advise them that foreclosure was possible were only those who were more than three years delinquent on at least one loan.

So the Farmers Home policy, as we understand it, is to do this in a graduated and measured way so as to not have a highly serious impact on all of the farmers out there who are delinquent—and there are many, many accounts like that, as you know.

Mrs. **Smith**. Well, this is really very serious in the midwest. I think, Mr. Chairman, 2,300 of those letters were mailed to my district, and if you start foreclosing on this number of people, you will take all the value out of the land and economically wreck our area.

So this is very important.

Now, are you going to continue to be a part of making decisions in regard to the farm bill, in regard to legal interpretations of issues involved in the farm bill?

Mr. **Fowler**. Yes, Mrs. Smith.

FARM BILL

Mrs. **Smith**. Then let me ask you if you are addressing the $50,000 payment limitation and how this addresses family farm corporations which as you know, have been encouraged. Have you made a definite decision about this, and what is it?

Mr. **Kelly**. Mrs. Smith, I don't think a definite decision has been made or, if it has been made, I am unable to answer that. I would like to supply a response for the record, if I could.

Mrs. **Smith**. I am going to be going out to my district on Sunday, and this is one of the big issues out there. You think this decision has not been made?

Mr. **Fowler**. It has not been made. Regulations to identify how that will work are being prepared but have not been completed yet.

Mrs. **Smith**. When do you expect them to be completed?

Mr. **Fowler**. Mrs. Smith, I can't tell you at the moment just where they are. There are about a dozen or more regulations stemming from the farm bill being worked on, and I just don't know where that particular one is. We could, as Mr. Kelly said, give you that for the record.

FmHA Funding

Mrs. SMITH. Well, you know, it's very important that we make these decisions quickly: it's planting time out there and our folks need to know.

I have just one more question, Mr. Chairman.

Are you folks free to make the kinds of judgments that you think are right about these things, or is it correct, as I hear, that OMB tells you what to do?

Mr. KELLY. Mrs. Smith, I think that when the Secretary and the other officials of the Department ask us for a legal opinion, they expect to get, and we expect to provide, an objective legal opinion. The policy determinations are made, of course, by the Secretary, and the other officials of the Department and the Office of Management and Budget with respect to funding levels and program decisions I think are involved in that process, but I don't think the character of the legal advice rendered by the General Counsel's Office is affected by that.

Mrs. SMITH. Please describe how the Office of the General Counsel plans to enforce the collection of FmHA loans?

Mr. KELLY. The Office of the General Counsel provides the Farmers Home Administration advice on how to resolve delinquent accounts. If it is necessary to enforce collection, accounts are either foreclosed nonjudicially or referred to the appropriate United States Attorney who seeks collection through the courts.

Mrs. SMITH. Will you continue to look into decisions that have been made regarding the Farm Bill?

Mr. KELLY. We will continue to review decisions which are made as a result of the enactment of the Food Security Act of 1985 and all subsequent amendments to that legislation. In the area of the commodity programs, for example, attorneys from the General Counsel's office provide legal advice to the Agricultural Stabilization and Conservation Service with regard to the development and implementation of those annual programs. This necessarily means that the decisions which have previously been made with regard to the commodity programs are again reviewed to determine the applicability of those decisions to the programs which are being established in subsequent crop years.

Mrs. SMITH. Thank you, Mr. Chairman.

Mr. WHITTEN. Mr. Myers.

Mr. MYERS. I have no questions, Mr. Chairman.

Mr. WHITTEN. Mr. Skeen.

FMHA FUNDING

Mr. SKEEN. Thank you, Mr. Chairman. I'd like to ask just one question.

We went through a process here in the last few days—or weeks—whereby we have not been able to get funding that was previously authorized and available to some of these programs because, as I understand it, the Counsel's office came up with the opinion that because one piece of legislation was passed one day after another, why, there was a question whether 2.7 billion or 1.7 billion was to be made available—and that has kept critical legislation hung up now for about a month.

Did that come out of your office?

Mr. Kelly. Yes, it did, sir, and in fact——

Mr. Skeen. Would you run through that for me?

Mr. Kelly. Sure.

Mr. Skeen. I know it doesn't have much to do with your appropriations, but it would be——

Mr. Myers. Well, it does.

Mr. Kelly. It does. If we don't do a good job on issues of this kind, then perhaps we shouldn't be receiving appropriated funds.

Mr. Skeen, a statutory construction principle is that where two laws appear to conflict, you make every effort that you can to harmonize them. The two laws were passed four days apart.

Mr. Skeen. Was it that much time between them?

Mr. Kelly. Yes, sir.

Mr. Myers. Signed four days apart.

Mr. Kelly. Signed four days apart.

Mr. Myers. Passed one day apart, I believe—December 19th and 20th.

Mr. Kelly. I think that's right, sir.

Mr. Myers. Then signed four days apart.

Mr. Kelly. But the date of enactment for the continuing resolution, Section 101 of which incorporated the Agriculture appropriations for fiscal '86, was December 19. The date of enactment, the date on which the President signed the Food Security Act, was December 23.

Both of those Acts, unfortunately, contained provisions which would establish lending ceilings for certain Farmers Home Administration programs for each of the next three fiscal years—'86, '87, and '88.

The insured operating loan level for FY 1986 for Farmers Home loans established in the appropriations measure was $2.7 billion; the same level established in the Food Security Act was $1.7 billion.

We found that there was no way to construe those two statutes together, and therefore the only statutory principle, the principle of statutory construction that could be applied, was that the later in time prevailed. Neither of them contains an actual appropriation of funds; each of them is an authorization of an amount that can be expended from a revolving fund.

Were the amount expressed as a direct appropriation, then, of course, the amount appropriated in the earlier bill would have remained available. But where they are authorizations instead and the figures in the two bills disagree——

Mr. Skeen. Then you feel constrained to follow what the statute says insofar as which one should apply or take precedence.

Mr. Kelly. In this case, yes, sir.

Mr. Skeen. That's very interesting, because we have got an emergency situation here and it has consumed a tremendous amount of time—and I know you are doing your job, and I am not berating you for that.

I just want to follow the thread of how this issue and determine how thing have gotten so snarled up, because we have lost about a month of time trying to rectify this.

Mr. Kelly. I understand.

Mr. **Skeen**. And possibly it's as much our fault as anybody else's because of the time involved, or the unfortunate circumstances involved.

Mr. **Kelly**. Well, it's a very complicated issue, sir.

Mr. **Skeen**. I assume that it must have been, because it has been a very complicated process trying to circumvent the opinion. [Laughter.]

Mr. **Kelly**. Yes, sir.

Mr. **Skeen**. The Chairman would appreciate that more than anybody else. Thank you very much.

Mr. **Whitten**. I'd just like to know any lawyer you've got who says that an authorization after the fact has got anything to do with an appropriation made before that. I'd like to know the name of the lawyer.

Mr. **Kelly**. That's not the principle we applied.

Mr. **Whitten**. Involved in this was an appropriation by the Congress, making available $2.7 billion. Any authorization thereafter would have no effect on it whatever, according to all the lawyers I ever knew.

When we pass a continuing resolution which makes an appropriation the full appropriation would be available to you regardless. And if there is a lawyer you have who signed that opinion to the contrary, I'd like to know his name.

Mr. **Kelly**. I signed it, Mr. Chairman.

Mr. **Whitten**. How's that?

Mr. **Kelly**. I signed that opinion.

Mr. **Whitten**. You signed it.

Mr. **Kelly**. Yes, sir.

Mr. **Whitten**. Tell me again your reasoning.

Mr. **Kelly**. The reasoning is that the expression of the $2.7 billion——

Mr. **Whitten**. Expression.

Mr. **Kelly** [continuing]. The statement, the provision of $2.7 billion for insured operating loans was not itself an appropriation, but was rather a limitation——

Mr. **Whitten**. What effect would it have on the appropriation after it had been made?

Mr. **Kelly**. Were it an appropriation, it would have prevailed.

Mr. **Whitten**. $2.7 billion was made available.

Mr. **Kelly**. Yes, sir.

Mr. **Whitten**. And the money is still available, is it not?

Mr. **Kelly**. No, sir.

Mr. **Whitten**. What difference was made by the authorization to affect in any way the $2.7 billion that was signed the day before? There was none, was there?

Mr. **Kelly**. Well, that's not correct, sir. The difficulty is that both statutes contained authorizations. The $2.7 billion, had it been a direct appropriation, would have prevailed over the later-enacted lesser authorization.

But the fact that it merely states an authorizing level for amounts to be expended from a revolving fund is the fact that is of greatest significance here.

Mr. WHITTEN. There is no need to argue this further. I will say, and I will say it flatly, that you need to straighten out your General Counsel's Office.

Mrs. SMITH. Could I ask one more question?

Mr. WHITTEN. Yes.

Mrs. SMITH. You said that you thought that paying this 50 percent to those people who had taken care of the citrus canker problem down in Florida was an emergency. Would you consider it an emergency when we run out of FmHA money and our farmers out there cannot harvest the crop unless they have the money? Would you then use the same decision to transfer on an emergency basis so that we would have the money?

Mr. KELLY. Mrs. Smith, I would certainly consider that an emergency. Unfortunately, the section of law that permits the Secretary to transfer funds to control and eradicate diseases of animals and plant pests extends only that far: it does not extend to other departmental programs.

Mrs. SMITH. Thank you, Mr. Chairman.

Mr. WHITTEN. Our collegue Mr. Watkins has some questions he would like answered for the record.

OKLAHOMA FIELD OFFICE

Mr. WATKINS. I notice with great interest, that funding has been included to staff the Stillwater, Oklahoma field office at a level of 5 staff years. Also, it has been brought to my attention that during confirmation hearings of Secretary Lyng, he indicated a firm commitment to keeping this office open. Is that the status?

Response. Yes.

Mr. WATKINS. How many people are currently staffing the Oklahoma office?

Response. There are three people now in the Stillwater office.

Mr. WATKINS. Are these temporary or permanent personnel? How many are support personnel and how many are attorneys?

Response. The employees are permanent. There is one attorney, one paralegal and one secretary.

Mr. WATKINS. Are you actively pursuing recruitment of attorneys to staff the office full-time? How soon do you expect an Attorney-In-Charge to be hired and on the premises?

Response. The Office of the General Counsel has been actively seeking attorneys for the Stillwater office. An attorney was hired to begin work on March 31, 1986.

Mr. WATKINS. Currently, is anyone being detailed to process the caseload? If not, can someone be detailed to the office until permanent attorneys can be hired for the job?

Response. The Temple, Texas field office was assigned responsibility for the Stillwater work pending the hiring of attorneys. That assignment will continue during a training period for the new attorney, and to the extent necessary to handle work pending the hiring and training of a second attorney for the Stillwater office.

Mr. WATKINS. In your budget, you indicate that the Stillwater office is a pilot program. How soon can this be designated a permanent field office?

Response. In the Office of the General Counsel's 1987 budget, the Farmers Home Administration reimbursable account is discontinued. With that change the former pilot office will become a part of the Office of the General Counsel field organization.

Mr. WATKINS. How many cases were processed last year in Oklahoma?

Response. The Stillwater office had 850 cases pending at the beginning of fiscal year 1985, 375 cases were incoming, 397 cases were closed, leaving a backlog of 828 cases pending at the end of the fiscal year.

Mr. WATKINS. The latest information that I have indicates this office had a backlog of 1,500 cases. Is this figure accurate?

Response. No. As of February 1, 1986, the office had a backlog of 893 cases.

Mr. WATKINS. What is being done to process this backlog? Is this backlog consistent with other field offices?

Response. The Office of the General Counsel has been actively seeking attorneys for the Stillwater office. An attorney was hired to begin work on March 31, 1986. This backlog is consistent with that in other OGC offices.

Mr. WATKINS. What are your plans for this field office during the next 5 years?

Response. Our plan is to continue to use this office as a part of the Office of the General Counsel's field organization.

Mr. WATKINS. What level of staffing do you anticipate for this office during the next 5 years?

Response. A current estimate would be some reduction from two attorneys and three support personnel based on estimates that the workload will decline due to program changes and budget restraints.

Mr. WHITTEN. Thank you very much for your testimony today gentlemen.

[Statements follow:]

OFFICE OF THE GENERAL COUNSEL—U.S. DEPARTMENT OF AGRICULTURE

STATEMENT OF DANIEL OLIVER, GENERAL COUNSEL, BEFORE THE HOUSE SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT AND RELATED AGENCIES

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you to discuss the Office of the General Counsel's fiscal year 1987 appropriation request.

FISCAL YEAR 1987 BUDGET REQUEST

For Fiscal Year 1987, we are requesting $17,430,000 in direct appropriation. The FY 1987 request represents 1% less than the FY 1986 current estimate of $17,588,000. The activities previously funded on a reimbursable basis are requested as a direct appropriation in FY 1987.

This budget assumes an FTE ceiling of 385. The $158,000 funding decrease from FY 1986 will be realized through reductions in budgeted discretionary items such as travel, training, supplies, postage, printing and reproduction, and attrition.

ADMINISTRATION

I am pleased to say that the office automation efforts initiated over the last two years have been effected and are in daily use. A telecommunications network connecting word processors in all but two field offices to headquarters allows instant communication of text. This system has also expedited preparation of our Monthly Workload Measurement Report for each field office and division. A quarterly Debt Collection Report is also prepared via the network.

WORKLOAD

We anticipate no new program initiatives in FY 1987, and estimate the relative workload distribution among USDA client agencies to remain about the same in FY 1987. While much of the legal work related to implementation of the recently enacted Food Security Act of 1985 will have been completed during FY 1986, the Act is quite comprehensive and we expect USDA's implementation efforts to continue well into FY 1987.

The Office of the General Counsel expects the higher level of staff efforts devoted to servicing, counseling, and debt collection of FmHA loans in 1986 to continue through FY 1987. Revisions in FmHA regulations as a result of statutory requirements and court orders will be completed, permitting more expedited processing of new and backlogged FmHA cases in the Field. Funds for the Pilot Project which established seven additional field offices in 1983 to assist FmHA in this area are included in our appropriations request in FY 1987.

The Office of the General Counsel has budgeted slightly more for Forest Service legal services in 1987 than in FY 1986 in anticipation of additional legal work regarding the implementation of 122 new Land Management Plans for the National Forest System. These increased efforts will be offset by slight adjustments in other areas of legal activity in the office.

Mr. Chairman, that concludes my statement. I would be pleased to answer any questions.

OFFICE OF THE GENERAL COUNSEL

Purpose Statement

The Office of the General Counsel, prior to 1955 known as the Office of the Solicitor, was established in 1910 (70 Stat. 742) as the law office of the Department of Agriculture.

The Office provides all essential and necessary legal advice and services for the Department's ongoing programs, taking into consideration not only immediate needs but future requirements as well.

Geographic Location. The work of this Office is carried out in Washington, D.C., and at twenty-two field offices at the following locations:

Albuquerque, New Mexico
Atlanta, Georgia
Chicago, Illinois
*Columbus, Ohio
Denver, Colorado
Harrisburg, Pennsylvania
Hato Rey, Puerto Rico
*Jackson, Mississippi
Juneau, Alaska
Kansas City, Missouri
*Lincoln, Nebraska
Little Rock Arkansas
Milwaukee, Wisconsin
Missoula, Montana
*Montgomery, Alabama
Ogden, Utah
Portland, Oregon
*Raleigh, North Carolina
*Richmond, Virginia
San Francisco, California
*Stillwater, Oklahoma
Temple, Texas

A pilot program to provide on-site services to certain Farmers Home Administration field offices is conducted in the locations identified with an asterisk.

As of September 30, 1985, the Office had 366 employees of which 332 were permanent full-time employees and 34 were other employees. There were 162 permanent full-time employees and 16 other employees located in Washington, D.C., and 170 permanent full-time employees and 18 other employees in the field.

OFFICE OF THE GENERAL COUNSEL

Available Funds and Staff-Years

1985 Actual and Estimated 1986 and 1987

Item	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff-Years	Amount	Staff-Years	Amount	Staff-Years
Office of the General Counsel	$17,356,939	373	$17,588,000	388	$17,430,000	388
Total, Office of the General Counsel	$17,356,939	373	17,588,000	388	17,430,000	388

Full-time Equivalent Staff-Years:	1985 Actual	1986 Estimated	1987 Estimated
Ceiling	371	385	385
Non-Ceiling	2	3	3
Total	373	388	388

OFFICE OF THE GENERAL COUNSEL

Permanent Positions by Grade and Staff-Year Summary
1985 and Estimated 1986 and 1987

Grade	1985			1986			1987		
	Headquarters	Field	Total	Headquarters	Field	Total	Headquarters	Field	Total
Executive Level IV	1	- -	1	1	- - -	1	1	- - -	1
ES-6	--	- -	--	1	- - -	1	1	- - -	1
ES-5	2	- -	2	3	- - -	3	3	- - -	3
ES-4	1	- -	1	4	- - -	4	4	- - -	4
ES-3	4	- -	4	3	- - -	3	3	- - -	3
ES-2	3	- -	3	0	- - -	0	0	- - -	0
ES-1	1	- -	1	2	- - -	2	2	- - -	2
GS/GM-15	20	9	29	20	9	29	20	9	29
GS/GM-14	52	54	106	52	52	104	52	52	104
GS-13	19	13	32	20	13	33	20	13	33
GS-12	13	14	27	20	12	32	20	12	32
GS-11	19	7	26	8	6	14	8	6	14
GS- 9	2	6	8	2	6	8	2	6	8
GS- 8	6	- -	6	6	- -	6	6	- -	6
GS- 7	16	21	37	20	20	40	20	20	40
GS- 6	6	17	23	17	15	32	17	15	32
GS- 5	5	17	22	5	15	20	5	15	20
GS- 4	3	10	13	5	10	15	5	10	15
GS- 3	- -	0	0	- -	3	3	- -	3	3
GS- 2	1	- -	1	- -	- - -	0	- -	- - -	0
Total Permanent Positions	174	168	342	189	161	350	189	161	350
Staff-Years									
Ceiling	183	188	371	190	195	385	190	195	385
Non-Ceiling..........	2		2	3		3	3		3
TOTAL	185	188	373	193	195	388	193	195	388

OFFICE OF THE GENERAL COUNSEL

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

		1985	1986	1987
Personnel Compensation:				
	Headquarters	$7,402,000	$8,707,000	$8,707,000
	Field	6,171,000	5,281,000	5,281,000
11	Total Personnel Compensation	13,573.000	13,988,000	13,988,000
12	Personnel Benefits	1,564,000	1,432,000	1,432,000
13	Benefits for former personnel	- -	- -	- -
	Total Pers. Comp. & Benefits ..	15,137,000	15,420,000	15,420,000
Other Objects:				
21	Travel	264,727	317,000	300,000
22	Transportation of things	9,405	2,000	2,000
23.2	Communications, utilities and other rent	929,510	920,000	829,000
24	Printing and reproduction ...	25,428	30,000	30,000
25	Other services	439,320	478,000	404,000
26	Supplies and materials	415,329	421,000	445,000
31	Equipment	26,951	- -	- -
	Total Other Objects	2,110,670	2,168,000	2,010,000
Total Direct Obligations		17,247,670	17,588,000	17,430,000

Position Data:

	1985	1986	1987
Average Salary, ES positions	$66,776	$66,776	$66,776
Average Salary, GS positions	$30,411	$26,411	$26,411
Average Grade, GS positions	10.98	10.47	10.47

OFFICE OF THE GENERAL COUNSEL

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Office of the General Counsel:

For the necessary expenses, [$15,077,000] $17,430,000; [and in addition, $786,000 shall be derived by transfer from the appropriation, Food Stamp Program", and merged with this appropriation].

This change reflects the deletion in FY 1987 of language authorizing the transfer of funds from the Food Stamp Program. Beginning in FY 1987 the Food Security Act of 1985 forbids the transfer of funds from the Food Stamp Program to this Office.

OFFICE OF THE GENERAL COUNSEL

	Office of the General Counsel	Transfer From Food & Nutrition Service	Total
Appropriation Act, 1986	$15,077,000	$786,000	$15,863,000
Budget Estimate, 1987	17,430,000	- -	17,430,000
Increase in Appropriation ..	+2,353,000	-786,000	+1,567,000

Adjustments in 1986:		
Appropriation Act, 1986	$15,863,000	
Less Pro Rata Reduction, P.L. 99-190	-90,000	
Net Appropriations	15,773,000	
Activities Converted from Reimbursable to Appropriated Funding	+1,834,000	
Transfer to Departmental Administration and Office of Governmental Public Affairs for Reimbursable Activities a/	-19,000	
Adjusted base for 1986		17,588,000
Budget estimate, 1987		17,430,000
Decrease over adjusted 1986		-158,000

a/ A transfer of $14,000 to Departmental Administration, and $5,000 to Office of Governmental and Public Affairs is to fund activities previously financed on a reimbursable basis as direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1986 Estimated	Program Change	1987 Estimated
Legal Services	$17,588,000	-158,000	$17,430,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

Project	1985 Actual Amount	1985 Actual Staff Years	1986 Estimated Amount	1986 Estimated Staff Years	Decrease	1987 Estimated Amount	1987 Estimated Staff Years
Legal Services	$17,247,670	373	$17,588,000	388	-152,000(1)	$17,430,000	388
Unobligated balance	109,269	- -	- -	- -	- -	- -	- -
Total available or estimate ...	17,356,939	373	17,588,000	388	-152,000	17,430,000	388
Farmers Home Administration.	-1,305,692	-33	-1,400,000	-33	- -	- -	- -
Federal Crop Insurance Corp.	-121,575	-2	-100,000	-2	- -	- -	- -
Forest Service..	-56,748	- -	-334,000	-4			
Subtotal, Shift in Reimbursable	-1,484,015	-35	-1,834,000	-40	- -	- -	- -
Transfer to DA & GPA..........	+30,076	- -	+19,000	- -	- -	- -	- -
Total Appropriation	15,903,000	338	15,773,000	348	- -	- -	- -

EXPLANATION OF PROGRAM

The Office of the General Counsel was established in 1910, and the General Counsel, as chief law officer of the Department, is responsible for providing legal services for all programs, operations, and activities of the Department. The General Counsel is assisted by a Deputy General Counsel and four Associate General Counsels, each of whom is responsible for a portion of the legal work of the Department. The functions of this Office are performed in the Washington office and in 22 field offices. The Law Library was transferred from the National Agricultural Library in 1982.

The field offices handle legal work relating to the activities of the Agricultural Stabilization and Conservation Service, Commodity Credit Corporation, Farmers Home Administration, Federal Crop Insurance Corporation, Forest Service, Soil Conservation Service, Food and Nutrition Service, and the Agricultural Stabilization and Conservation Committees. By delegation of the General Counsel, legal work relating to other programs and activities of the Department may be handled by a field office.

Legal Advice. The Office of the General Counsel issues both formal and informal opinions on legal questions arising in the administration of the Department's programs; prepares or reviews administrative rules and regulations applicable to the public; drafts proposed legislation; prepares or interprets contracts, mortgages, leases, deeds, and similar documents; prepares patent applications arising out of inventions by Department employees; and considers and determines claims by and against the United States arising out of the Department's activities.

Administrative Proceedings. The Department is represented by the General Counsel in administrative proceedings for the promulgation of rules having the force and effect of law and in quasi-judicial hearings held in connection with the administration of various USDA programs.

Civil Litigation. Civil litigation arising out of the Department's work is handled by the Department of Justice, with the Office of the General Counsel assisting in the preparation and trial of such cases. The General Counsel represents the Secretary in administrative proceedings before the Interstate Commerce Commission involving freight rates on farm commodities and in appeals from the decisions of the Commission to the courts. By delegation, the Associate General Counsel for Legislation, Litigation, Research and Operations represents the Department in certain classes of cases before the United States Court of Appeals.

Criminal Litigation. Criminal cases are reviewed for the purpose of referring them to the Department of Justice.

JUSTIFICATION OF INCREASES AND DECREASES

(1) A decrease of $158,000 due to operating efficiencies in conducting the program.

Office of the General Counsel
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF-YEARS
1985 and Estimated 1986 and 1987

	1985		1986		1987	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Alabama.................	$139,492	4	$141,459	4	$147,598	4
Alaska..................	97,841	2	99,220	2	103,527	2
Arkansas................	524,938	13	532,339	14	555,443	14
California..............	779,700	17	790,693	18	825,009	18
Colorado................	55,564	14	56,347	15	58,793	15
District of Columbia...	10,324,921	183	10,567,647	192	10,104,960	192
Georgia.................	922,364	27	935,369	28	975,964	28
Illinois................	402,042	11	407,711	11	425,405	11
Kansas..................	558,547	14	566,422	15	591,005	15
Mississippi.............	127,063	4	128,854	4	134,447	4
Montana.................	284,952	7	288,970	7	301,511	7
Nebraska................	84,964	2	86,162	2	89,901	2
New Mexico..............	218,102	6	221,177	6	230,776	6
North Carolina..........	103,926	4	105,391	4	109,965	4
Ohio....................	74,619	2	75,671	2	78,955	2
Oklahoma................	198,682	5	201,483	5	210,228	5
Oregon..................	485,301	12	492,143	12	513,503	12
Pennsylvania............	557,982	14	565,849	15	590,407	15
Puerto Rico.............	147,410	4	149,488	4	155,976	4
Texas...................	489,245	12	496,143	12	517,676	12
Utah....................	188,182	4	190,835	4	199,118	4
Virginia................	123,318	4	125,057	4	130,484	4
Wisconsin...............	358,515	8	363,570	8	379,349	8
Total, Available or Estimate..........	17,247,670	373	17,588,000	388	17,430,000	388

OFFICE OF THE GENERAL COUNSEL

STATUS OF PROGRAM

The Office of the General Counsel (OGC) serves as the legal advisor and counsel for the Department.

Current Activities: The Office provides legal services for all agencies of the Department. These services include, but are not limited to, the following:

- giving opinions on legal question;
- preparing or reviewing rules and regulations;
- preparing or interpreting contracts, mortgages, leases, deeds, and other documents;
- preparing and defending the Department in judicial proceedings and litigation;
- processing applications for patents for inventions of the Department's employees;
- considering and determining claims by and against the United States arising out of the Department's activities;
- representing the Department in formal administrative proceedings;
- assisting the Department of Justice (DOJ) in the preparation and trial of cases involving the Department; and
- representing the Secretary of Agriculture and the Commodity Credit Corporation before the Interstate Commerce Commission and the Federal Maritime Commission.

Highlights of OGC's fiscal year 1985 operations are described below:

Selected Examples of Recent Progress:

REGULATORY AND MARKETING

Meat and Poultry Products Inspection Acts: Approximately 149 criminal, civil injunction cases, civil seizure cases and claims collection cases were referred to the DOJ or otherwise handled or disposed of with numerous successful criminal prosecutions. Cattle King, its president, and another official appealed convictions for conspiracy to violate the Federal Meat Inspection Act and for six violations of the Act relating to the preparation and distribution of adulterated, misbranded and uninspected meats and meat food products.

OGC assisted in defending the Secretary and other officials of the Department in 11 civil actions. In addition, 26 of administrative proceedings involving the withdrawal of Federal meat and poultry inspection were litigated. OGC also reviewed, revised, drafted, or cleared approximately 73 notices of proposed rulemaking or final rulemaking dockets, and drafted or reviewed numerous bills and reports concerning amendments to the Acts.

Animal and Plant Health Inspection Service: OGC reviewed, revised, or drafted and cleared approximately 190 proposed regulations, final regulations, and legal notices. Staff also assisted in defending the Secretary and other officials of the Department in 16 civil actions. OGC has continued to experience a substantial increase in administrative cases under the animal and plant quarantine and related laws. Staff handled about 499 such cases, which represents an increase of about 230 cases over the fiscal year 1984 level. Most of these cases sought the assessment of civil penalties pursuant to Public Law 97-461. In addition, approximately 98 criminal cases were referred to the DOJ or otherwise handled or disposed of during the fiscal year.

Marketing Agreements and Orders: There are 44 milk orders and 47 fruit and vegetable orders in effect. OGC attorneys reviewed and cleared approximately 258 rulemaking dockets, as well as numerous other documents relating to these orders. OGC handled numerous formal and informal rulemaking proceedings under the marketing orders, including lemon and Valencia and navel orange marketing order amendment proceedings; the hop order hearing and the termination of the Order; and the new diversion program involving raisins. OGC participates in all formal rulemaking proceedings as Departmental Counsel. The dairy marketing order program was also very active. Numerous amendment hearings involving issues such as pricing differentials, location adjustments, pricing exemptions based on use (ultra high temperature milk for export), and order area realignments were held throughout the country.

The marketing orders also generated criminal, civil and administrative actions, including bankruptcy matters, antitrust actions, injunctive actions, challenges under the Administrative Procedure Act, civil forfeitures, suits under the Freedom of Information Act (FOIA), and challenges to the legality of order provisions. Some of the significant cases included an action involving release of grower list under the Lemon Order pursuant to a FOIA request; a major civil forfeiture case under the Navel and Valencia Orange Orders; a milk handler suit contesting the Class I differential in an amendment to the Texas Milk Marketing Agreement; a milk handler suit challenging the actual receipt requirement of the Indiana Milk Marketing Order; a major Ninth Circuit case involving producer standing under the Act; and a suit challenging the validity of reserve price regulations issued under the Raisin Marketing Order.

Agricultural Marketing Act of 1946: Twenty-four rulemaking dockets and notices involving revised and upgraded standards for various commodities including cucumbers, tomatoes, and fruit juices, were handled during the past year. OGC provided legal representation to USDA graders and other officials involved in civil and administrative litigation concerning the grading by USDA of various agricultural products. OGC staff also took legal action to stop several companies from misusing official USDA grades or inspection reports. In addition, OGC handled three formal administrative proceedings seeking withdrawal of Federal meat grading and acceptance services. Additionally, OGC reviewed around eight notices of proposed rulemaking or final rulemaking dockets.

Animal Welfare Act: OGC acted on more than 100 cases referred by APHIS. Following formal administrative proceedings, substantial penalties were imposed and corrective orders issued against the largest exhibitor of animals in Hollywood, two major university research institutes, and several of the largest animal dealers in the country. OGC has worked to streamline the enforcement of the Act by creating a new stipulation procedure to resolve minor violations and by collaborating with APHIS on a civil penalty task force. OGC successfully defended a lawsuit in California that challenged the Secretary's decisions concerning initiation of enforcement actions under the AWA.

Horse Protection Act (HPA): OGC provided legal services to APHIS on many aspects of the enforcement of the HPA; particularly disputes among different segments of the horse industry concerning the industry's self-regulation program.

Transportation: OGC represented the Secretary before the Interstate Commerce Commission on many important transportation issues, including competitive aspects of rail transportation and grain movement in the Northwest.

Virus-Serum-Toxin Act: OGC provided substantial legal services in connection with labeling and trademark problems involving a number of major drug manufacturers. Considerable time was spend in providing drafting services concerning rulemaking in the extremely important areas of manufacturing, testing and labeling of biologics and in connection with proposed amendments to the Act which would affect USDA jurisdiction over animal biologics. OGC has been extensively involved in various problems which have arisen with the advent of genetic engineering and in asssisting APHIS in its efforts to formulate both USDA and government-wide regulatory policy in this area.

Grain Standards Act: OGC reviewed approximately 85 dockets for legal sufficiency. These dockets included finalization of five-year regulatory reviews for portions of the regulations issued pursuant to the Grain Standards Act. OGC worked closely with the Federal Grain Inspection Service (FGIS) in developing a new standard format for all of the eleven grain standards issued under the Act. In litigation in which two grain firms appealed a decision favorable to the Department regarding a $4.5 million refund for alleged excess fees, the Court of Appeals upheld the Court of Claims' judgment in favor of the Department.

Cotton Programs: OGC provided legal services regarding the Cotton Standards Act, the Cotton Futures Act, the Cotton Statistics and Estimates Act of 1947, and the Cotton Research and Promotion Act. In addition to reviewing numerous rulemaking dockers, OGC continued to work closely with the DOJ in connection with antitrust litigation involving the Spot Cotton Quotation Program. Substantial legal services were provideed to the Cotton Division of AMS in connection with their supervision of the Cotton Board, particularly in litigation involving overdue assessments and handler bankruptcies, and improving Cotton Board enforcement and compliance activities.

Freedom of Information Act (FOIA) and Privacy Act: Reviews many of the requests for information made to agencies and assists the agencies in responding to such requests including reviewing agency files to determine the applicability of FOIA exemptions as to releasing certain information. When appropriate, OGC assists the Department of Justice in litigation regarding these Acts.

Legislation: OGC assists Department agencies in drafting legislation on all programs. Of most signficance last fiscal year was the drafting of uniform user fee legislation for AMS and FGIS. OGC also reviews and redrafts testimony to be delivered by the Department to the appropriate Congressional Committees.

Packers and Stockyards Act: In fiscal year 1985, 156 disciplinary and 18 reparation proceedings were initiated. At the end of the fiscal year, 50 disciplinary actions and 10 civil actions were under consideration by OGC. In addition, 106 disciplinary and 130 reparation actions were docketed and pending.

Perishable Agricultural Commodities Act: OGC staff rendered 193 opinions on the merits concerning contract disputes between members of the perishable agricultural commodities industry. In addition, 47 administrative actions before the Secretary and 11 court cases involving individual licenses or their employees were completed. There were 17 files opened on matters involving the newly enacted trust fund provisions. Several of these referrals have resulted in the filing of actions in Federal courts to prevent and restrain the dissipation of such funds, and there has been issued a highly favorable precedent setting decision by one court upholding the validity of the provisions and establishing broad authority by which the Secretary may carry out his statutory mandate.

INTERNATIONAL AFFAIRS, COMMODITY PROGRAMS, AND FOOD ASSISTANCE PROGRAMS

Commodity Credit Corporation (CCC) and Agricultural Stabilization and Conservation Service (ASCS): OGC drafted legislation related to the 1985 omnibus farm legislation. In addition, the OGC staff assisted Department officials in the mark-up of the farm legislation as it was being considered by the Senate and House Agriculture Committees. OGC has also provided substantial legal assistance in formulation and drafting regulations and other documents related to the No Net Cost Tobacco Program and various warehousing activities involving CCC and ASCS.

OGC provided substantial legal assistance regarding litigation surrounding 42 grain warehouse insolvencies with $29 million in CCC inventories. Substantial legal services were also required involving cargo preference and disaster program litigation. The table below summarizes litigation activity involving the Corporation.

Commodity Credit Corporation Cases	FY 1984	FY 1985
Number of cases referred to Department of Justice	1,841	2,093
Total dollar value of cases filed by and against (in millions)	176.6	141.3
Number of cases pending in court or Department of Justics, end of year	3,089	2,856
Total dollar value of pending cases (in millions)	191.3	249.2

Foreign Agricultural Service: OGC provided assistance on the extension of export credit guarantees covering export sales of around $5 billion; a new Export Enhancement Program; new legislation authorizing CCC to donate dairy and wheat products overseas; implementation of the Israel/United States Free Trade Agreement; regulations providing for the charging of fees for the issuance of cheese import licenses; a petition under Section 22 of the Agricultural Adjustment Act of 1933, as amended (Section 22), seeking to impose fees on imports of textile products; two hearings at the U.S. International Trade Commission on imported sugar blends and mixtures under Section 22; and Federal constitutional questions on state actions to restrict foreign trade in meat and meat products.

Federal Crop Insurance Corporation (FCIC): Expanded coverage for various crops has required extensive legal services to review new and existing insurance policies and new program coverage areas. OGC drafted regulations and agreements strengthening the reinsurance portion of this program and also assisted the FCIC in collections, payments, administrative reviews, and claims. FCIC litigation has increased substantially. At the end of fiscal year 1985, 364 cases totalling $35 million were pending in the Department of Justice.

Food Assistance Programs: During fiscal year 1985, OGC assisted in developing revised Food Stamp Program regulations implementing provisions of the 1982 and subsequent amendments to the Food Stamp Act of 1977, and in a comprehensive revision of major portions of the Food Stamp, School Lunch, WIC and Commodity Distribution regulations. Litigation against the Department regarding these programs was a significant element of the work (143 matters). Most of the litigation challenged the Department's implementation of new income and household definitions and verification requirements. In addition to dozens of retailer/wholesaler judicial review cases, the Food Stamp Program faced 45 new court challenges to administration of the program.

COMMUNITY DEVELOPMENT AND NATURAL RESOURCES

Farmers Home Administration (FmHA) Programs: For fiscal year 1985, OGC provided legal assistance for approximately 4,537 items relating to FmHA activities. Large amounts of staff time continue to be used for complex litigation and insured and guaranteed loan problems. The approval for legal sufficiency of numerous revisions to FmHA regulations continued to consume considerable staff time as FmHA implements new statutory requirements and complies with various court orders. With FmHA's emphasis on servicing, counseling, and debt collection functions, substantial legal work will continue to be necessary in connection with these activities.

Rural Electrification and Telephone Programs: REA borrowers have continued to make heavy use of private market financing, including leveraged leases and tax exempt bond financing. OGC provided legal services in the negotiation, drafting, and review of instruments providing security for loans and guarantees to the Government and associated financing documents. Several REA borrowers are facing severe financial problems resulting from delays, cost overruns and even termination of major construction projects wholly or partially financed by loans made or guaranteed by REA. One borrower, which presently owes nearly $700 million on loans made or guaranteed by REA, filed Chapter 11 in May of this year. Considerable legal services were required in advising REA in these cases and in working with attorneys in the DOJ to prepare the Government's responses. Much of OGC's resources have been devoted to a careful analysis of legislation being considered by Congress to change the loan policy and other aspects of REA's operations.

REA's telephone loan program is deeply affected by the ongoing restructuring of the telephone industry, including new technology and deregulation that has opened many facets of telecommunications services to competition. In addition, many commercial telephone borrowers are merging and requesting that REA and the Rural Telephone Bank (RTB) agree to changes in the security for their loans. REA requires signficant legal services on these matters. Controversy has developed over the policies and procedures of the RTB. OGC, as legal counsel to the RTB, has been called upon for advice on a variety of procedural and substantive issues.

Forestry and Other Land Programs: Legal assistance is given on a wide variety of actions and claims relating to the administration of the National Forest System. Primary legal problems are the development and implementation of 122 land and resource management plans for each unit of the National Forest System and timber contract sales and administration, including implementation of the Federal Timber Contract Payment Modification Act. Conservation-minded organizations, industry user groups, and individuals frequently challenge Forest Service land management decisions concerning timber sales, land use permits, recreation uses, wilderness and roadless area preservation, road construction, pesticide use in forest management, and mineral exploration and development. Many disputes involve alleged noncompliance with requirements of the National Environmental Policy Act, the National Forest Management Act, the Federal Land Policy and Management Act, the historic preservation laws, and the Endangered Species Act. Legal problems also arise relating to native American treaty rights. An emerging area of work is compliance with the Clean Water Act; Clean Air Act; Resources Conservation and Recovery Act; and Comprehensive Environmental Response, Compensation and Liability Act.

Soil Conservation Service (SCS) Programs: OGC provides legal counsel on agency programs and activities, range management, recreation, reclamation of surface-mined lands, and natural resource protection, as well as review of new memoranda of understanding beween Soil and Water Conservation Districts and SCS; advice on the application of State and Federal statutes to programs that affect approximately 3,000 soil and water conservation districts; the defense of lawsuits brought by parties challenging the agency's activities and the prosecution of claims on behalf of the agency; and review and certification of titles to land being acquired by local sponsors. OGC is involved in a variety of matters relating to the provisions of the Soil and Water Resources Conservation Act. These include continuing assistance in preparation of special study arangements with soil conservation districts and others to carry out experiments in conservation methods.

LEGISLATION, LITIGATION, RESEARCH AND OPERATIONS

Legislation: In fiscal year 1985 staff coordinated legal review and clearance of approximately 462 legislative reports on pending bills and proposals, and written testimony of over 206 witnesses before Congressional committees. Staff also prepares or assists in the preparation of drafts of legislative proposals on request for members of Congress, Congressional committees, and agencies within the Department and provides technical assistance to Congressional committees and to USDA legal and policy officials on legislative drafting and clearance and Congressional procedure.

Litigation: OGC is responsible for the Department's position in cases on appeal. Staff attorneys draft and review documents concerning cases in the Supreme Court, and they brief and argue cases in the Federal Courts of Appeals and State appellate courts. During fiscal year 1985, they made recommendations regarding the appeal of over 100 cases. Moreover, they were significant contributors to the briefs and arguments in numerous other cases on appeal. Staff attorneys represented the Department in administrative proceedings before the Environmental Protection Agency in a case concerning certain pesticide registrations of strychnine. In a major recent case, Heckler v. Roy, the Solicitor General filed documents adopting the Department's argument that the First Amendment was not violated by the use of social security numbers to identify food stamp beneficiaries to prevent fraud in the program because such use outweighs a genuine religious belief that social security numbers are part of a "great evil." The Supreme Court has agreed to hear the case.

Research and Operations: During fiscal year 1985, the Washington office received 107 new administrative claims filed under the Federal Tort Claims Act and 144 claims were open at the end of fiscal year 1985. Two hundred and fifteen cases are currently in litigation. At the end of fiscal year 1985, there were approximately 51 cases in litigation or administrative proceedings with "civil rights" implications relating to the Department's personnel policy, grant programs, and direct assistance programs. Legal services are also rendered in the areas of employee conduct (including conflect of interest and conduct proscribed by regulations issued pursuant to Executive Order 11222 relating to ethics in conduct); budget and fiscal matters; property management; advisory committee activities; internal reorganizations of the Department; and similar matters. Continuing efforts are also being made to collect more efficiently money owed to the Department.

OGC provides legal advice to all agencies of the Department engaged in the procurement of construction, supplies, and services. At the end of fiscal year 1985, there were approximately 504 claims pending before the Board of Contract Appeals, of which 50 were the responsibility of the Washington office and 454 the responsibility of the field offices. In addition, nine cases for which the Washington office has responsibility were in litigation at the end of the fiscal year. Reviews were conducted and recommendatons made on all Requests for Proposals (RFP) issued by Departmental agencies for contracts with estimated prices exceeding $500,000. These reviews help contracting officers to comply with procurement laws and contribute to improved procurement procedures in the Department. At the end of fiscal year 1985, 19 Freedom of Information cases were in litigation. In addition, OGC staff reviewed approximately 66 proposed final denials under the Freedom of Information Act.

Under the direction of OGC, applications for patents are prepared on inventions by USDA employees and contractors with the objective of obtaining patent protection for the government. Sixty-seven new inventions were reported to OGC during fiscal year 1985. Of these, 36 patent applications were prepared and submitted to the U.S. Patent and Trademark Office. There were 118 patent applications pending before the Patent Office at the end of fiscal yar 1985. Forty-four patents were obtained and seven applications were abandoned.

Regional Field Offices: OGC field offices provide legal services to a number of USDA agency field offices throughout the country. These agencies (Farmers Home Administration, Forest Service, Agricultural Stabilization and Conservation Service, Food and Nutrition Service, Agricultural Marketing Service, Federal Crop Insurance Corporation, and Soil Conservation Service) have large field staffs which have extensive delegated powers to implement programs at the State and local level. Our offices give advice and provide other legal services on all matters within the scope of authority of such agency personnel. A majority of litigation in the Federal courts is completed at this local level, without the involvement of the Washington office. Headquarters personnel and field attorneys work directly with the responsible United States Attorneys' offices. Of some 57,203 cases in litigation in fiscal year 1985, 89 percent were the responsiblity of the 22 field offices.

Working on litigation is only a minor part of the workload at such locations. Other work includes reviewing loan making and servicing; real estate transactions; procurement and other types of contracting; interpretations of state law which affect Federal programs; the application of Federal rules and regulations; whether local policy decisions are consistent with national policies, and are within the scope of delegated authorities; how to deal with violations of either state or Federal laws; municipal financing arrangements required to meet Federal statutory and regulatory conditions; applicability of state laws on Federal lands; nonjudicial foreclosures, of which there were 4,340 cases being worked on during the year; and pre-litigation work which includes negotiations and possible settlements to avoid litigation.

The number of field offices was increased to the current level of 22 in fiscal years 1983 and 1984. This increase chiefly included six offices which have been funded by the Farmers Home Administration under a reimbursable agreement, and which are dedicated to providing legal services to FmHA. The heavy volume of field office work continued to increase during fiscal year 1985. However, the addition of the new offices slowed the growth of backlog of civil and criminal litigation work at the field level. While the backlog of administrative cases continued to increase, the two areas of litigation chiefly affected by the new offices, civil and criminal, had a decline in backlog during fiscal year 1985. Whether the backlog can be reduced, or the growth controlled, is largely dependent upon changes in programs of client agencies. During periods of either significant program changes or new legislative initiatives, the workload increases due to legal services and litigation associated with implementing changs, irrespective of whether programs or program levels are reduced.

FRIDAY, APRIL 11, 1986.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

WITNESSES

WILMER D. MIZELL, ASSISTANT SECRETARY, OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

JOHN M. McCLUNG, DIRECTOR, OFFICE OF INFORMATION, OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

JAMES BOILLOT, DEPUTY ASSISTANT SECRETARY, OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

RAYMOND LETT, DIRECTOR, OFFICE OF INTERGOVERNMENTAL AFFAIRS, OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

Mr. WHITTEN. The committee will come to order.

I am glad to see the working members of the subcommittee are present. I won't call names, but the working members are present. We are glad to have them with us in view of the many other meetings and hearings demanding their time.

We all have been very, very busy, and I say for the record it has been hard on the Department and for us, too. You went for a while without a Secretary and without an Under Secretary. We have done the best we could, and I am sure you have.

With us today is Mr. Mizell, Assistant Secretary of Governmental and Public Affairs, together with Mr. McClung, Mr. Boillot and Mr. Dewhurst. We are indeed glad to have you.

SUPPLEMENTAL APPROPRIATIONS BILL

There has been quite a bit of discussion before the Rules Committee on the supplemental appropriation bill lately. I would like to say for the record that what this committee did insofar as what is in this supplemental appropriations bill, was done in view of the record before us, showing that twice as many applicants—people in need in agriculture are being turned down because the Farmers Home Administration is setting up new requirements as to whether the cash flow will be adequate to let the prospective borrowers make a profit.

What we did was call on the Department to use the old law, where they have authority to tie price supports to costs. So we are not writing a new law. We are saying that, in view of the experience up until now, you should use the old law to take care of the situation. I mention that because there was quite a bit of discussion yesterday in the Rules Committee that this subcommittee was trying to take over agriculture. May I say that it is not. We are just pointing out what the law already is and that it would certainly be an improvement over the decisions that are presently being made by the Farmers Home Administration.

Mr. Mizell, we are glad to have you. We will be glad to have you proceed as you wish.

OPENING STATEMENT

Mr. MIZELL. Thank you, Mr. Chairman.

It is always an honor and privilege to appear before this committee and so many of the members that I have served with and know personally. You have already recognized a couple of the folks who are with me, but I would like to mention that I have with me Mr. Jim Boillot, the newly appointed Deputy in OGPA; Mr. John McClung, the Director of the Office of Information; and Mr. Ray Lett, the newly appointed Director of Intergovernmental Affairs. It is good to have them with me.

[CLERK'S NOTE.—The biographical sketches and Mr. Mizell's prepared statement appear on pages 918 through 921.]

As you know, OGPA is responsible for communicating Departmental policy and program information to the public, the Congress, and State and local governments. Through leadership and coordination, we are the communication core of the Department of Agriculture.

We are in an age of rapid technological change in the ways in which we communicate agricultural information to the public. Through the use of electronic communications, satellite transmissions, and advancements in print technologies, we are servicing and will continue to serve the public.

Additionally, organizational streamlining and program evaluation are ways in which we continue to develop one of the most efficient communications operations in the Federal Government, while at the same time enabling us to be more efficient in communicating to larger audiences.

During the past year, the Public Liaison activities of the Department were assigned to my office. Public Liaison's function is outreach—to broaden knowledge on agricultural issues. Some of its programs, such as private sector initiatives, are aimed at specific audiences. Others, such as the spokespersons program, are designed for the general public and cover a broad range of agricultural topics. Just recently we worked closely with the Agricultural Council of America in having the National Agricultural Day program at the Department of Agriculture. The program was well attended and did a tremendous job in communicating to the public the importance of agriculture. It was just a good program. So, we are involved in all these areas of public liaison.

During fiscal year 1986, several program functions, such as some of those in Public Liaison, are being financed through cooperative arrangements with USDA agencies for which direct funding is requested for fiscal year 1987.

FISCAL YEAR 1987 REQUEST

As to the fiscal year 1987 budget request, I am requesting a funding level of $8.570 million. This includes, as previously mentioned, activities that were funded through cooperative arrangements with other USDA agencies.

The fiscal year 1987 appropriation request is $82,000 less than our adjusted appropriation for fiscal year 1986. This is a one percent reduction and reflects operating efficiencies and management savings which will be accomplished by realignment of workloads, use of office automation, and general operating economies.

We will continue to publish the Yearbook of Agriculture and expect to print 232,250 copies.

I would like to mention, in regard to the Yearbook, that this particular one is significant in that it comes out just prior to the centennial observation of the enactment of the Hatch Act of 1887, establishing Federal aid to State agricultural experiment stations. So next year we will be recognizing 100 years of agricultural research. The timing of this publication is very meaningful.

This concludes my statement, Mr. Chairman, and I will be happy to respond to any questions you might have.

Mr. WHITTEN. Thank you very much.

You know, I have been more disturbed the last few years than at any time I have served in the position I have of handling Department of Agriculture appropriation bills. Historically, we have worked very closely because, when you leave here, we have to take your budget and go before the House for funds to carry it out. I believe we have had more people this last five years who did not keep us advised and who failed to give the programs the support they should have. Mr. Mizell, you have many friends up here, of which I certainly am one. But it is terrible, the position that the people of the Department have with regard to the agricultural program for which they are responsible.

We have laws which enable labor to strike, to organize, to demand more increases. We have laws which protect industry. By reason of those laws, industry and labor has increased, since World War II, their share of the consumer dollar from 49 percent to 73 percent, leaving the farmer, who buys from industry and labor at an increasing cost, being reduced from 51 percent down to 27 percent. Yet the Department of Agriculture has refused to use laws that would let them set price supports for basic commodities in line with the cost of production the farmer had to pay. These laws are on the books now, but we have been unable to get the Secretaries of Agriculture or the heads of the Farmers Home Administration to use those laws.

In times past, the Commodity Credit Corporation, which was set up to help sell exports competitively, has refused to use that authority. Mr. Butz didn't use it when he was Secretary, but he did use his authority to encourage American industry to retain foreign markets.

RESPONSIBILITY TO INFORM CONGRESS

Now, I notice you have said in your remarks that you advise the public first and Congress second. I tell you, it is embarrassing. It gets me when I call down home to tell them about developments in agriculture and find that they had it the day before on television.

Yet the Congressman you look to didn't know anything about it in advance.

We have two statutes, one is section 607(a) which reads; "No part of any appropriation in this or any other act or funds available for expenditure by any corporation/agency shall be used for publicity or propaganda purposes designed to defeat legislation pending before Congress." We also have a criminal statute which reads: "No part of the money appropriated by any enactment of the Congress shall, in the absence of express authorization by Congress, be used directly or indirectly to pay"—and so forth. This is in the statutes.

It strikes me your agency has been used to promote the latest farm bill, which has proven disastrous, and, as you say, you notify the public and then you notify the Congress. Whether you knew it or not, and I have called it to your attention repeatedly, it is embarrassing to me, as chairman, and to other members of this committee, to see things appear in the papers back home, when we didn't even know about it here. I am talking from my heart.

You may remember under Bobby Kennedy, some Members of Congress were in real trouble because they didn't give their best services to the government. I am glad to have your testimony, but I want to tell you that it has come to the point where I wonder if we should finance that which is being misused to sell the farm bill to the American people?

Mr. **Mizell**. Mr. Chairman, I don't know of any instance where my area has misused resources.

Mr. **Whitten**. You are responsible for an agency now. I am not talking about what you personally did.

Mr. **Mizell**. Mr. Chairman, I appreciate the position this chairman or any Member of this Congress is put in when he reads about a department action back home.

Mr. **Whitten**. Your experience in Congress should let you know it.

Mr. **Mizell**. That is right. And I want you to know I noticed the order in which those things were stated this morning.

Mr. **Whitten**. But you still used them.

Mr. **Mizell**. I did use them—I should have changed it, because we feel a very strong responsibility not only to you, Mr. Chairman, and members of this committee, but to each Member of Congress, to keep them informed. We know it is a two-way street.

INTERACTION WITH CONGRESS

Mr. **Whitten**. We have been able to work closely with the Department of Agriculture until the last few years, in season, out of season, Democrats or Republicans. But during the last few years, I won't call names, in many instances we have had people running programs who didn't believe in what they were doing. One man used $15 million improperly and said, "Well, we apologize." That was his answer to me when I asked him how he used the money.

Mr. **Mizell**. We certainly don't intend to do that, and to my knowledge, we haven't.

Mr. **Whitten**. Should we put prohibitions here to cut off half your people? You understand that after you leave here, we have to take your case to the Congress, and we have been doing a good job of it.

And may I say—the Appropriations Committee has held appropriations within the budget over the years.

Mr. MIZELL. Mr. Chairman, I am aware of this and you called it to my attention the last time I was up here.

Mr. WHITTEN. I have done so periodically over the years, if you recall.

Mr. MIZELL. For quite a period of time, I thought our method of service to you and to the committee and the Congress was working quite well.

Mr. WHITTEN. As you say here, you let the Congress know second.

Mr. MIZELL. That is the wrong order in which we function.

Mr. WHITTEN. That is the order in which you have been doing it. I agree with you, it is wrong to do it that way, your agency, I should say.

Mr. MIZELL. That is true. But in the Department, Mr. Chairman, there are so many opportunities along the way. If someone wants to violate the rules that we have set up, it is available for them to do it, and it does happen sometimes that someone becomes overzealous and they will get outside of the rules of the procedures that we have established.

Mr. WHITTEN. How can we reach those people?

Mr. MIZELL. It reaches all the way from the State level, all the way up.

Mr. WHITTEN. Could we send them a copy of the statutes?

Mr. MIZELL. Yes, but it is my responsibility, Mr. Chairman.

Mr. WHITTEN. But you are not able to carry it out. We want to help you.

Mr. MIZELL. Well, in this last instance, it was difficult for us because the breakdown came when the President called Mrs. Smith, and we didn't know about it for, oh, I guess, several hours after that. In fact, I took the time to check, and within ten minutes after our Liaison Office knew, your office was notified, Mr. Chairman. We didn't have any control over that for at least the couple of hours that we were not aware of it.

Now, you know, I checked into it, since you called it to my attention, and in a case like that, we had absolutely no control.

Mr. WHITTEN. The transfer of the $750 million is not the case I was referring to.

When you have two-and-a-half percent of the people living on the farm, when it is your biggest industry and the biggest market for industry and labor providing the cheapest and most economical supply offered, and when it is being used to finance our foreign policy, goodness knows you and everybody in the Department, together with this subcommittee, the full Appropriations Committee and the Agriculture Committee, all had better pull together.

I understand that some of our friends over on the Legislative Committee strongly opposed what we have in the supplemental bill before the Rules Committee. That is their privilege. I am their friend, but we need to pull together.

To show you what we have been faced with: For FmHA loans the Appropriations Committee provided $2.7 billion. The Legislative Committee came along and cut it to $1.77 billion, but then got after this Committee for trying to wreck the program. Who made the cut? We didn't. Now, the Department should have the money which we gave them, rather than the reduced amounts which they authorized after the appropriation was signed into law.

Again, we are not trying to write the law. But from the hearings we have had, you have been turning down twice as many people as before. We need to look ahead and use the old law. There is nothing wrong with that.

TRANSFER FROM OTHER USDA AGENCIES

Mr. Whitten. According to the explanatory notes a total of $2,952,000 was transferred from other agency appropriations to your office. Please itemize for the record the amount transferred from each agency and the activities performed for the agencies and the number of staff performing these activities.

Mr. Mizell. The $2,952,000 represents estimated billings in fiscal year 1987 to USDA agencies or to the Working Capital Fund for services provided through or to the Fund. The services provided by this Office include the planning, design, and production of visual information materials, exhibit, and art and graphics materials and related services.

[Additional information follows:]

WORKING CAPITAL FUND ACTIVITIES IN THE OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

Activity	Fiscal year—					
	1985		1986		1987	
	Amount	SY	Amount	SY	Amount	SY
Resources management staff	30,000	2	45,000	2	47,000	2
Video and film	820,000	8	936,000	9	983,000	9
Photographic services	470,000	2	0	0	0	0
Visual design services	1,979,000	11	2,109,000	12	1,922,000	12
Total	3,299,000	23	3,090,000	23	2,952,000	23

Mr. Whitten. You are also proposing to convert $984,000 in reimbursable activities to direct appropriations in 1987. Please explain for the record what activities are financed with these funds and why there should be a direct appropriation.

Mr. Mizell. There are several activities that we are proposing to fund by direct appropriation. I will supply more information for the record.

[The information follows:]

The *USDA Newsletter,* a bi-weekly newsletter that communicates information on the Department's policies and programs expeditiously to USDA employees.

The *USDA Visitor Information Center,* which was established to serve visitors to USDA. This Center receives approximately 95,000 in-person and telephone inquiries each year for publications and general information on the Department of Agriculture.

USDA Television Production, an activity that provides balanced information to rural and urban publics on USDA research, regulations, and other activities to promote better understanding of USDA's services to farmers and to the general public.

DIALCOM, a central contract for access to electronic information sources.

Public Liaison, outreach activities designed to promote a dialog between USDA and the farm community.

Photocomposition Unit, an activity providing photocomposition services to USDA agencies.

The size and the relative importance of these activities have increased significantly in recent years. We now believe that they should be considered a part of OGPA's permanent program, and therefore directly funded through the OGPA appropriation.

ORGANIZATIONAL CHART

Mr. WHITTEN. Please submit for the record a copy of the most recent OGPA organizational chart showing the total staffing per unit.

Mr. MIZELL. I will be happy to provide our latest approved organization chart which is dated January 1983 and includes staffing. We are in the process of updating the OGPA organization chart.

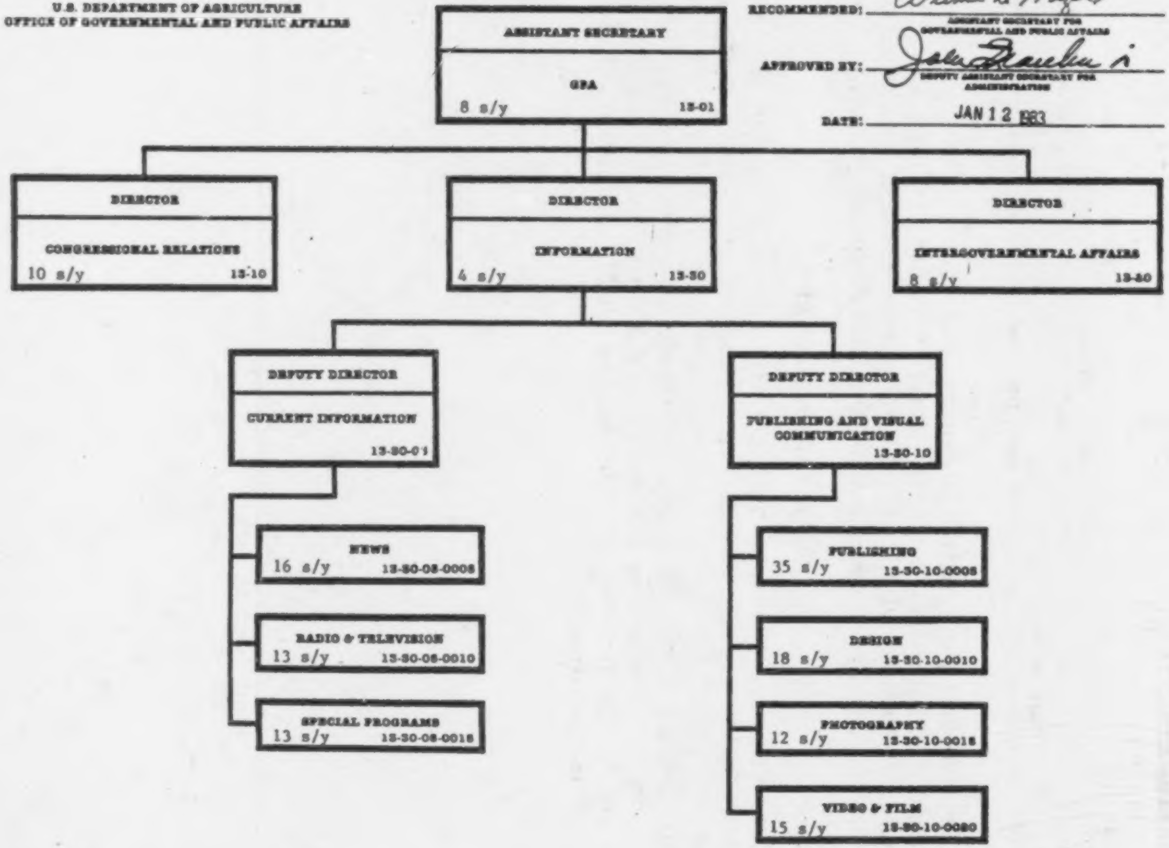
[This information follows:]

U.S. DEPARTMENT OF AGRICULTURE
OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

RECOMMENDED: Wilmer D Mizell
ASSISTANT SECRETARY FOR GOVERNMENTAL AND PUBLIC AFFAIRS

APPROVED BY: John Franke Jr
DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION

DATE: JAN 12 1983


ASSISTANT SECRETARY
GPA
8 s/y
13-01
DIRECTOR
CONGRESSIONAL RELATIONS
10 s/y
13-10
DIRECTOR
INFORMATION
4 s/y
13-30
DIRECTOR
INTERGOVERNMENTAL AFFAIRS
8 s/y
13-20
DEPUTY DIRECTOR
CURRENT INFORMATION
13-30-05
DEPUTY DIRECTOR
PUBLISHING AND VISUAL COMMUNICATION
13-30-10
NEWS
16 s/y
13-30-05-0005
RADIO & TELEVISION
13 s/y
13-30-05-0010
SPECIAL PROGRAMS
13 s/y
13-30-05-0015
PUBLISHING
35 s/y
13-30-10-0005
DESIGN
18 s/y
13-30-10-0010
PHOTOGRAPHY
12 s/y
13-30-10-0015
VIDEO & FILM
15 s/y
13-30-10-0020

s/y denotes "staff-years"

SUPERCEDES CHART DATED FEBRUARY 27, 1980

CONGRESSIONAL RELATIONS

Mr. WHITTEN. Please submit for the record the number of OGPA staff performing congressional relations functions and the number of staff in each agency performing congressional relations functions.

[The information follows:]

USDA CONGRESSIONAL LIAISON
(Dollars in Thousands)

Agency	1985		1986		1987	
	End-of-Year Employment	Staff-Years	End-of-Year Employment	Staff-Years	End-of-Year Employment	Staff-Years
FSIS:						
Professional	2	2.0	2	2.0	2	2.0
Clerical	2	2.0	2	2.0	2	2.0
B/A	$119	- -	$120	- -	$122	- -
ASCS:						
Professional	1	1.0	1	1.0	1	1.0
Clerical	- -	- -	- -	- -	- -	- -
B/A	$44	- -	$45	- -	$47	- -
FGIS:						
Professional	2	1.0	2	1.0	2	1.0
Clerical	1	.1	1	.1	1	.1
B/A	$48	- -	$48	- -	$48	- -
REA:						
Professional	1	1.5	1	0.8	1	1.0
Clerical	- -	.5	1	0.5	1	1.0
B/A	$95	- -	$50	- -	$70	- -
APHIS:						
Professional	3	1.0	3	1.0	3	1.0
Clerical	- -	- -	- -	- -	- -	- -
B/A	$62	- -	$59	- -	$50	- -
FmHA:						
Professional	4	5.9	6	6.0	6	6.0
Clerical	2	1.8	2	1.8	2	1.8
B/A	$280	- -	$270	- -	$275	- -
FNS:						
Professional	4	4.0	3	3.7	4	4.0
Clerical	2	2.0	2	2.0	2	2.0
B/A	$237	- -	$215	- -	$215	- -
AMS:						
Professional	2	2.0	2	2.0	2	2.0
Clerical	1	1.0	1	1.0	1	1.0
B/A	$131	- -	$134	- -	$134	- -
FCIC:						
Professional	2	1.7	1	.9	1	1.0
Clerical	1	.3	1	.3	1	.3
B/A	$46	- -	$24	- -	$23	- -

Agency	1985		1986		1987	
	End-of-Year Employment	Staff-Years	End-of-Year Employment	Staff-Years	End-of-Year Employment	Staff-Years
FAS:						
Professional	2	2.0	2	2.0	2	2.0
Clerical	1	1.0	1	1.0	1	1.0
B/A	$107	- -	$115	- -	$115	- -
SCS:						
Professional	2	1.0	3	3.0	3	3.0
Clerical	1	1.0	1	1.0	1	1.0
B/A	$66	- -	$177	- -	$177	- -
ORDP:						
Professional	- -	.3	- -	- -	- -	- -
Clerical	- -	- -	- -	- -	- -	- -
B/A	$12	- -	- -	- -	- -	- -
OGPA:						
Professional	8	8.0	8	8.0	8	8.0
Clerical	3	3.0	3	3.0	3	3.0
B/A	$420	- -	$492	- -	$486	- -
ARS:						
Professional	1	1.0	1	1.0	1	1.0
Clerical	2	1.8	2	2.0	2	2.0
B/A	$140	- -	$133	- -	$133	- -
FS:						
Professional	1	1.0	1	1.0	1	1.0
Clerical	1	.5	1	.5	1	.5
B/A	$56	- -	$53	- -	$55	- -
OIG:						
Professional	- -	- -	- -	- -	- -	- -
Clerical	- -	- -	- -	- -	- -	- -
B/A	$25	- -	$26	- -	$26	- -
OICD:						
Professional	1	.2	1	.2	2	.5
Clerical	- -	- -	- -	- -	- -	- -
B/A	$12	- -	$12	- -	$24	- -
PSA:						
Professional	- -	.3	- -	.4	- -	.4
Clerical	- -	.1	- -	.1	- -	.1
B/A	$22	- -	$28	- -	$28	- -
TOTAL						
Professional	36	33.9	37	34.0	39	34.9
Clerical	17	15.1	18	15.3	18	15.8
B/A	$1,922	- -	$2,001	- -	$2,028	- -

Mr. WHITTEN. Please also submit a copy of the job description for a typical congressional liaison position in OGPA.

Mr. MIZELL. I will be glad to provide this information.

[This information follows:]

I. INTRODUCTION

The Office of the Secretary is the top organization in the Executive Branch for planning, development, implementation, and coordination of all agricultural programs administered by the Federal Government. The impact of these programs are both national and international as well as economic and social in the broadest scope.

The mission of the Office of Governmental & Public Affairs, Congressional Relations is to coordinate all legislative matters in the Department, maintain liaison with Congress and the White House on legislative matters; or public affairs, to advise, counsel, and communicate the current/proposed objectives/programs of the Administration and the Department.

The incumbent serves as a Confidential Assistant to the Assistant Secretary, GPA with emphasis on the focal point through which congressional program and policy documentation and correspondence flows for evaluation and review prior to submission to top policy officials for signature and/or subsequent issuance.

II. DUTIES AND RESPONSIBILITIES

1. Serves as the focal point through which Congressional program and policy documentation and correspondence flows for evaluation and review prior to submission to the Secretary and/or his top policy officials for signature and/or subsequent submission. Incumbent will deal directly with USDA agency administrators, staff and operations officers and other responsible officials to reconcile differences which appears in these written materials where Departmental policy has been established or explained.

2. Appraises incoming materials and determines through which channels it will be brought to the attention of Departmental officials.

3. Reviews incoming Congressional correspondence to assure that the outgoing materials responds to the request for information, is addressed to the proper officials and conveys an appropriate tone, etc.

4. Recommends changes on any letters which may result in improvement and efficiency in the Congressional correspondence program. Counsels with agency legislative officers on any problems which may develop with respect to the Congressional correspondence.

5. It is imperative that any written Congressional policy and program materials be carefully evaluated to eliminate any possibility of the contents being misunderstood or not clearly stated because of the adverse effect it would have upon the Administration, the Secretary, the Department, and the total national agricultural program.

6. Assists in the tracking and review of testimony prepared by Departmental agencies for use before Congressional Committees.

7. Serves as the focal point for developing factual material. Obtains necessary clearances and presents findings, opinions and conclusions to appropriate members of the staff both orally and in writing so that these officials may be comprehensively informed on issues involved without the necessity of individual study and detailed scrutiny of Congressional policy implications.

III. SUPERVISION AND GUIDANCE RECEIVED

The incumbent works under the general direction of the Assistant Secretary, GPA and is guided by the Congressional policy and program pronouncements issued by the Department as well as discussions with agency administrators and staff officials.

IV. MENTAL DEMANDS

It is necessary that the incumbent possess a broad and comprehensive knowledge of the Department's organization, program and assignments of responsibilities and policies, in order to properly evaluate Congressional correspondence and other documentation. Incumbent must be acutely aware of the sensitivity of reports, letters and documents and be able to detect statements which have deleterious effects if improperly written, handled or released. Incumbent must possess good judgment, initiative and creativeness to a high degree. The incumbent will not be able to adequately perform the duties of this position without being privy to the political, personal, and business philosophies of top level officials of the Department.

OTHER SERVICES

Mr. Whitten. Please provide for the record the sub-object class list of proposed expenditures for other services.

[The information follows:]

Office of Governmental and Public Affairs—Obligations for object class 25 (other services)

Subobject code and description		*FY 1987 Estimate*
2510:	Contractual services performed by other Federal agencies, excluding GSA, SLUC, and FTS charges	$340,000
2520:	Personnel related expenditures	45,000
2530:	Repair, alteration, or maintenance of equipment or structures	144,000
2540:	Contractual services other, e.g., architectural and engineering, research, commercial ADP services	95,000
2550:	Agreements, e.g., cooperative agreements between Forest Service, state agencies or private parties	35,000
2560:	ADP processing services and supplies provided by USDA Data Centers and NFC	41,000
2570:	Miscellaneous services, e.g., publication notices, advertising, A-76 contractual, GSA motor pool	94,000
	Total	794,000

EQUIPMENT

Mr. Whitten. The explanatory notes show that you are proposing to increase your equipment budget from $49,000 to $109,000 in 1987. Please provide for the record a description of the equipment you are proposing to purchase and how it will be used.

[The information follows:]

Office of Governmental and Public Affairs—Planned equipment purchases for FY 1987

Computer hardware for office automation	$19,200
Teleconferencing equipment/modification	50,000
New and replacement printing and photocomposition equipment	33,200
Other miscellaneous furniture and equipment	6,600
Total planned equipment purchases	109,000

TRAVEL

Mr. Whitten. Please explain in the record why your travel costs increased from $89,294 in fiscal year 1985 to the proposed level of $196,000 for fiscal year 1987.

Mr. Mizell. We made a concerted effort to curtail travel in fiscal year 1985. As a result, our travel base is considerably lower than it would otherwise be. A better level for travel for the Office is approximately $160,000, which is our fiscal year 1986 estimate without adjustments for comparability. Comparability adjustments increase the fiscal year 1986 estimate to $183,000, which compares favorably to the fiscal year 1987 estimate when inflation is taken into account.

Mr. Whitten. Last year you stated the use of teleconference programs saved the Department travel costs. Please provide for the record the total travel costs in the Department for fiscal years 1985, 1986, and 1987.

Mr. Mizell. I will be happy to provide this information.

[The information follows:]

PAGE 1 USDA OBJECT CLASS 21 (TRAVEL) BY FUND TYPE AS OF 02/12/86 14:45

IN THOUSANDS OF DOLLARS	1985 PRIOR YEAR	1986 CURRENT YEAR	1987 BUDGET YEAR		
Department of Agriculture					
Office of the Secretary					
TOTAL FED FUNDS	219	340	271	-------------	-------------
TOTAL TR FUNDS	137	80	55	-------------	-------------
Departmental Administration					
TOTAL FED FUNDS	1,317	1,527	1,567	-------------	-------------
Office of Governmental and Public Affairs					
TOTAL FED FUNDS	95	170	196	-------------	-------------
Office of the Inspector General					
TOTAL FED FUNDS	4,383	5,638	5,464	-------------	-------------
Office of the General Counsel					
TOTAL FED FUNDS	264	300	350	-------------	-------------
Agricultural Research Service					
TOTAL FED FUNDS	7,514	7,514	7,757	-------------	-------------
TOTAL TR FUNDS	8	15	15	-------------	-------------
Cooperative State Research Service					
TOTAL FED FUNDS	564	754	709	-------------	-------------
Extension Service					
TOTAL FED FUNDS	606	659	274	-------------	-------------
National Agricultural Library					
TOTAL FED FUNDS	64	80	80	-------------	-------------
Statistical Reporting Service					
TOTAL FED FUNDS	1,147	1,323	1,437	-------------	-------------
Economic Research Service					
TOTAL FED FUNDS	698	910	851	-------------	-------------

PAGE 2 USDA OBJECT CLASS 21 (TRAVEL) BY FUND TYPE AS OF 02/12/86 14:45

IN THOUSANDS OF DOLLARS	1985 PRIOR YEAR	1986 CURRENT YEAR	1987 BUDGET YEAR		
World Agricultural Outlook Board					
TOTAL FED FUNDS	20	30	33	-------------	-------------
Foreign Agricultural Service					
TOTAL FED FUNDS	2,441	2,775	2,942	-------------	-------------
Office of International Cooperation and Developmen					
TOTAL FED FUNDS	3,497	3.375	3,221	-------------	-------------
TOTAL TR FUNDS	137	100	100	-------------	-------------
Agricultural Stabilization and Conservation Servic					
TOTAL FED FUNDS	4,283	4,987	4,933	-------------	-------------
Federal Crop Insurance Corporation					
TOTAL FED FUNDS	4,610	6,050	5,516	-------------	-------------
Office of Rural Development Policy					
TOTAL FED FUNDS	27	9	-------------	-------------	-------------
Rural Electrification Administration					
TOTAL FED FUNDS	1,716	1,968	1,603	-------------	-------------
Farmers Home Administration					
TOTAL FED FUNDS	18,306	22,924	22,454	-------------	-------------
Soil Conservation Service					
TOTAL FED FUNDS	12,180	12,343	9,378	-------------	-------------
TOTAL TR FUNDS	8	8	3	-------------	-------------
Animal and Plant Health Inspection Service					
TOTAL FED FUNDS	9,988	9.814	6,225	-------------	-------------
TOTAL TR FUNDS	438	438	438	-------------	-------------
Federal Grain Inspection Service					
TOTAL FED FUNDS	1,168	1,426	1,426	-------------	-------------
Agricultural Marketing Service					
TOTAL FED FUNDS	4,104	4,387	4,185	-------------	-------------

PAGE 3 USDA OBJECT CLASS 21 (TRAVEL) BY FUND TYPE AS OF 02/12/86 14:45

IN THOUSANDS OF DOLLARS	1985 PRIOR YEAR	1986 CURRENT YEAR	1987 BUDGET YEAR		
TOTAL TR FUNDS	7,128	7,254	7,254		
Office of Transportation					
TOTAL FED FUNDS	93	61	20		
Food Safety and Inspection Service					
TOTAL FED FUNDS	19,307	18,739	20,466		
TOTAL TR FUNDS	7	7	7		
Food and Nutrition Service					
TOTAL FED FUNDS	3,288	3,408	3,255		
Human Nutrition Information Service					
TOTAL FED FUNDS	40	42	50		
Packers and Stockyards Administration					
TOTAL FED FUNDS	548	667	671		
Agricultural Cooperative Service					
TOTAL FED FUNDS	143	147	100		
Forest Service					
TOTAL FED FUNDS	52,943	60,973	41,493		
TOTAL TR FUNDS	2,188	4,362	4,286		
Department of Agriculture					
TOTAL FED FUNDS	155,573	173,340	146,927		
TOTAL TR FUNDS	10,051	12,264	12,158		

END OF REPORT

FOOD AND AGRICULTURAL COUNCILS

Mr. WHITTEN. To whom in the Department is the responsibility for liaison with the Food and Agricultural Councils assigned?

Mr. MIZELL. The responsibility of the Food and Agricultural Council has been assigned to the Assistant Secretary for Governmental and Public Affairs.

Mr. WHITTEN. Please provide for the record a list of activities in which the Food and Agricultural Councils were involved in fiscal year 1985.

[This information follows:]

Activities in which the Food and Agricultural Councils were involved in Fiscal Year 1985 included but were not limited to:

(1) emergency preparedness,
(2) streamlining proposals,
(3) rural development activities,
(4) agency coordination at state level,
(5) coordination and liaison with state governmental entities involved in agriculture, and
(6) information exchange on activities of the respective agency involved.

EMERGENCY PREPAREDNESS

Mr. WHITTEN. Please explain for the record why the emergency preparedness activities were transferred from your office to the Office of Personnel.

Mr. MIZELL. The transfer was the result of an agreement between the Assistant Secretary for Administration and me that such a transfer would be mutually advantageous.

OPERATING EFFICIENCIES

Mr. WHITTEN. Please explain in some detail the composition of the estimated savings of $82,000 as a result of operating efficiencies and management savings.

Mr. MIZELL. We have made improvements in the areas of contract management and supplies management that have enabled us to reduce these costs. Major savings have been realized through improved management of maintenance contracts and decreased dependency on other types of service contracts.

INFORMATION PACKETS

Mr. WHITTEN. In the explanatory notes on page 3g–4 you refer to informational packets provided State and local officials to assure their knowledge of pending agricultural actions. Please provide examples of these packets for the record.

[CLERK'S NOTE.—The information was too lengthy to reprint in the record. It will be retained on file.]

STAFF YEARS

Mr. WHITTEN. According to the explanatory notes you are proposing a staff year increase of 3, yet requesting $657,000 less in appropriations. Please explain for the record where the additional personnel will be employed. Please also provide for the record a table showing the number of personnel for fiscal years 1984, 1985, 1986, and 1987, financed under appropriation, under reimbursable activities, and under the Working Capital Fund.

Mr. **Mizell**. The explanatory notes should have reflected comparability in that 3 staff years associated with the transfer of the Photocomposition Unit into the Office of Governmental and Public Affairs were not added into the staff year estimates for fiscal years 1985 and 1986 when the comparability adjustments were made for the conversion of activities from reimbursement and the Working Capital Fund to direct appropriation.

The staff years in the table I will provide for the record have not been adjusted for comparability.

[The information follows:]

	1984 actual	1985 actual	1986 estimate	1987 estimate
Direct appropriation	128	127	130	141
Reimbursable activities	12	11	10	2
Working capital fund	30	21	21	21
Total staff years	170	159	161	164

PRIVATE SECTOR INITIATIVES

Mr. **Whitten**. In your opening statement, Mr. Mizell, you mention the public liaison function called "Private Sector Initiatives". Could you please describe USDA work in this program and provide some specific examples.

Mr. **Mizell**. The Office of Public Liaison's function is outreach—to broaden the knowledge of agricultural issues, of which "Private Sector Initiatives" is part of the overall function.

One of the most visible "Private Sector Initiatives" concerns an on-going cooperative program with the Future Farmers of America—FFA—called Building Our American Communities—BOAC. BOAC is a volunteer program, supported by contributions from the private sector, to serve and enhance our American communities. Young people improve the quality of life in this community and learn leadership skills. USDA's Farmers Home Administration and OGPA's officials serve as advisors and aid FFA and the private sector in coordinating the BOAC program.

Another "Private Sector Initiative" is the annual National Agriculture Day celebration in which USDA through OGPA cooperates with the private sector groups to honor our Agriculture community for its contribution to the American way of life.

These are a few selected examples of OGPA's coordination of programs between USDA and the private sector.

FARM BILL

Mr. **Whitten**. During 1985, the Department committed substantial resources to the authorization process, specifically, the Food Security Act of 1985. Please give us a breakdown of the FTEs and dollars committed by your Office for congressional affairs during this process.

Mr. **Mizell**. During fiscal year 1985 congressional relations activities expended eleven FTEs and $420,320.

1986 YEARBOOK OF AGRICULTURE

Mr. WHITTEN. What is the current status, the title, and the working outline for your Yearbook for 1986?

Mr. MIZELL. Copy for the 1986 Yearbook of Agriculture, "Research for Tomorrow," is now being edited. Production schedule calls for the Yearbook to be published by October 1, 1986. The 1986 Yearbook will emphasize the significance and role of agricultural research in a national and world economy. It will be published prior to the centennial observation of the enactment of the Hatch Act of 1887, which established Federal aid to the State agricultural experiment stations.

[Additional information follows:]

INTRODUCTION

Will explain who benefits and who pays for agricultural research, and will summarize current national agricultural research policy.

BIOTECHNOLOGY

Will describe international dimensions and industrial applications, will explain "biotechnology" and address citizen concerns, and will describe developments in the microbial world, plant world and animal world.

INSECTS AND WEEDS

Will address natural pesticides and biological controls, will discuss techniques of altering insect brain chemistry, tinkering with insect's bioclocks and decoding insects' chemical communications, and will describe research which allows humankind to keep ahead as insects and weeds adapt to meet changes of new pesticides.

HUMAN NUTRITION AND FOOD

Will discuss agricultural research's role in diet and health, will review food in diets, and will provide update on nutrition guidelines resulting from research.

FORESTS OF THE FUTURE

Will show how research contributes to managing range, wildlife and fish, will review management of forest and water resources for wilderness and recreation, will review assessment of forest resources and demands, will discuss reforestation of our future forests and planning for forest land management decisions in the future, will describe research to protect forest resources from disease, insects and fire, will describe researching forests' effects on climatic and weather, and will review research in forest harvesting, wood utilization and products of the future.

SHARING NEW KNOWLEDGE

Will review forthcoming role of electronic technology in agricultural research, will describe changing needs for information delivery to a changing society, will review impact of electronic technology on agricultural research and extension services, and will explain role of USDA's National Agricultural Library in dissemination of research results.

CAREERS IN AGRICULTURE

Will describe some of the careers in agricultural research and related sciences which have an effect beyond the farm gate in a world economy, will provide some profiles of recent agricultural graduates and some profiles of current agricultural students, and will provide a look to the future described by the theme: "Limitless opportunities; Ag Graduate—Will Travel."

CONGRESSIONAL LIAISON

Mr. **Whitten**. Is part of the congressional liaison activities of individual agencies within the Department funded by the OGPA account? If so, what formula is used to figure participation in agency congressional activities by OGPA?

Mr. **Mizell**. No, each agency pays for its own congressional liaison.

STAFFING

Mr. **Whitten**. Please tell us in some detail how you can reduce the total available to you in 1987 from 1986 by some $82,000, but you can increase staff by 4.

Mr. **Mizell**. Staff years financed by the appropriation will increase by two, not four as shown in the explanatory notes. The increase arises because two staff years dedicated to reimbursement activities in fiscal year 1986 will be converted to activities funded by the direct appropriation in fiscal year 1987. It is possible to finance these additional staff years, because the $82,000 reduction from fiscal year 1986 is a net reduction. The total reduction from fiscal year 1986 is $312,000, which is partially offset by increases due to inflation and the additional staff years.

RADIO AND TELEVISION

Mr. **Whitten**. We note that you distribute the weekly radio services "Agri-Tape/Farm Program Report" to over 900 stations. Are you able to tell us how many of these stations are considered rural radio stations? How many of the 900 actually use the report?

Mr. **Mizell**. Most of the 900 stations receiving the "Agri-Tape/Farm Program Report" are located in rural areas of the country. This weekly tape series contains information of interest to farmers and the agri-business sector. Our active requirements are that stations must return tapes promptly under their postage costs. The number of stations subscribing continues strong under this requirement, which gives a good indication of popularity and usage.

Mr. **Whitten**. Please give us the same kind of information for all the radio and television services you provide to various stations.

Mr. **Mizell**. In addition to the Agri-Tape/Farm Program Report, we provide radio stations with a weekly tape series called "Consumer Time" (350 subscribing stations) and one called "Agriculture USA" (225 subscribing stations). As with the "Agri-Tape/Farm Program Report," stations are required to return the tapes under their postage cost.

On the television side, we produce and distribute three weekly services: The half-hour consumer-oriented program "A Better Way," the five weekly news features series, "Down to Earth," and the 15-minute "Satellite News Service." "A Better Way" and the "Down to Earth" series are distributed both by videotape and satellite. A total of 45 stations receive the "A Better Way" program via videotape and 39 receive the "Down to Earth" series on videotape. At least this many more stations receiving these programs from satellite.

Mr. **Whitten**. Mrs. Smith.

Mrs. SMITH. Thank you, Mr. Chairman.

Welcome, Mr. Mizell. Our regular friend, Mr. Dewhurst, we are so glad to have you, and I want to say to all of you, Mr. Boillot did a marvelous job in our district when the Secretary of Agriculture made his first visit out there since he became Secretary of Agriculture. We are very appreciative to you, Mr. Boillot.

FMHA FUNDS FOR NEBRASKA

Since my name got mentioned earlier in connection with the $750 million, I think I ought to say what happened. I was invited by the President, along with three other Members of Congress, to go down to the White House to talk about Nicaragua. Really, we were out of FmHA money in Nebraska right as of then, and, of course, I believe in striking while the iron is hot. So while I was down there, we talked first about Nicaragua, then I said, "Mr. President, I need two things right away. We need some money out there in Nebraska for FmHA, we are out, and we need the Secretary to come out there the first thing within his first month and find out first hand how bad off we are out there."

So that was that, and within two hours, he called me up and said "The Secretary will come, and I have just signed an order for $750 million, and you are going to get some." So I assumed everybody knew that. All I did was tell my folks in the Third District we were going to have some money, and we wouldn't have to tell everybody thereafter we didn't have any money. Now so much for that.

YEARBOOK OF AGRICULTURE

I was so interested in your saying you are going to have the yearbook, and you talked about the Hatch Act and the hundred year anniversary. Is that what the subject of the yearbook is going to be?

Mr. MIZELL. Yes.

Mrs. SMITH. What is it about?

Mr. MIZELL. Mrs. Smith, you are right, it focuses on the great strides that have been made in agriculture and the contribution that agricultural research has made over the years.

Mr. WHITTEN. Agriculture is doing well, but the farmer is going broke. Is that what you are saying?

Mr. MIZELL. No, Mr. Chairman, I was trying to address the contribution that research has made over the last hundred years to the advancement of agriculture and agriculture production. The yearbook will cover the issues related to the impact of research. We look at biotechnology, which, of course, is something new coming on the scene; it will address natural pesticides and biological controls, human nutrition and food, forests of the future, sharing new knowledge, and careers in agriculture. So it is a real in-depth publication. I think all of us will be proud of it, Mrs. Smith.

Mrs. SMITH. I think that that sounds like an excellent subject. Certainly research, the results of research, along with the free enterprise system, has been what made it possible for agriculture to move ahead so much on production and better methods and better products and so on.

Mr. MIZELL. Mrs. Smith, I might also note that you are well aware, as the chairman is, that this committee, and, of course, the administration, has continued to support research in agriculture at the levels and even at increased levels, because all of us recognize the importance of it.

SPOKESPERSONS AND PRIVATE SECTOR INITIATIVES

Mrs. SMITH. Yes, we certainly do. And then, Mr. Mizell, you spoke in your comments about the spokespersons and also about the private sector initiative program aimed at specific audiences. Would you want to give us a few words more about what that is?

Mr. MIZELL. The spokesperson program is a new program that basically provides information to those in agriculture. Different organizations, ladies' organizations, women in agriculture in particular, have used it a great deal. They use this information to focus attention all across the country on the importance of a highly productive American agriculture and what it means to the consumers, and it is an educational process. So we work closely with them in keeping them up to date on the latest information that is available, the latest actions of the Congress, and in all of these areas. They do a tremendous job for agriculture.

One of the private sector initiative programs is the Touch America Program. The Forest Service is the agency within the Department that is involved in that program. The youth enrolled in the program spend a great deal of their summer in different national forests working. They construct picnic areas or recreational areas or trails to upgrade the national forest so that it is more enjoyable for people to visit. Those are the kinds of programs we are thinking of.

Mrs. SMITH. Thank you very much. I am much interested in hearing that.

Mr. Chairman, I have no more questions.

FMHA LOANS

Mr. WHITTEN. Mr. Mizell, I have probably taken advantage of you. I would like to present to you what the testimony before us is. The head of the Farmers Home Administration is now requiring a showing as to cash flow—that is, sufficient cash to where a farmer can meet past due accounts and make enough to live on in order to qualify for loans. He is turning down about 50 percent more applicants than he did last year. That is not called for in the law. The 1985 law was finally passed, which was promoted by the Department, to provide for the sale of dairy cows to reduce the number of cows at a time when the world is hungry and most countries in the world could use all the milk we could provide.

The result is that it is wrecking the cattle industry and the American cattlemen have been in town the last few days to discuss it with me. I suggested before the Rules Committee that we should give the American farmers a foreign address so they could qualify for these programs that our government has for other countries. I have before me an article from the Washington Post of Friday, April 1, 1986. It points out that the World Bank announced today it will lend Argentina $350 million to help the debt burden of that country. Farm exports account for about 75 percent of Argentina's total exports. We are helping by giving $350 million to Argentina, one of our competitors, because its farmers are in a tight situation and can't make money.

The head of the Farmers Home Administration gave no indication of such consideration to American farmers. I have here a full-page story about lending and promoting foreign countries to take over our markets. The PIK program was essential because it gave our farmers cash to operate another year. But the result was that we gave about 11 percent of our export markets to foreign countries.

I can't understand how our government and your Department can feel that you can put all the farmers in bankruptcy, and they are rapidly going broke. Yesterday I had the Farm Credit Administration representatives come to my office. I said, "Why do we need a manual when the folks are going to lose the farm? There is no need to have an agency if they are going to lend money where banks would. If the farmer is not going to make any money, why does he need any organization?" Now that is the picture that we have here.

LOANS TO FARMERS

I was kidding, of course, when I said it looks like we will have to send our farmers overseas to receive favorable treatment. We lost 11 percent of our production because of PIK. The 1985 farm bill will give up the rest, because it does not provide for export sales at competitive prices. That is the reason many folks believe in using the law we have, which your Department fails to use. If you have any suggestions as to what we can do, let us know.

My immediate thought is to change the address and just give a foreign address to the farmers. What is your comment on that?

Mr. **Mizell**. Mr. Chairman, of course, we don't have any control over the international bank, but I think you have certainly touched on an area of concern to many.

Mr. **Whitten**. Perhaps we should arrange a swap. We should get the Secretary of the Treasury, Mr. Baker, to run the Agriculture Department and have you run these foreign aid programs.

Mr. **Mizell**. Mr. Chairman, you have covered the subject.

Mr. **Whitten**. Well, we hate to take it out on our friends here, but the situation is untenable.

Mr. **Mizell**. It is serious, Mr. Chairman.

Mr. **Whitten**. Mr. Akaka.

IMPACT OF FARM BILL ON WORKLOAD

Mr. **Akaka**. Thank you very much, Mr. Chairman. It is quite a task to inform the public, Congress and state and local governments about policy matters and other matters of the USDA, and I just wondered what happens to you every four years when Congress considers the farm bill.

And my question would be: Are there any special demands on your office when we consider the farm bill?

Mr. **Mizell**. The demands in our area, as they are in all of the Department of Agriculture, are heavy, but we see our role as one of providing information to the Congress and also making sure that the concerns of the Congress are considered at the highest level in the Department of Agriculture. As to the information area, it is incumbent on us to do everything we can to put information about the actions by the Congress or by the Administration in the hands of the people that need it just as quickly and as efficiently as we possibly can.

Mr. **Akaka**. I guess I am trying to ask whether there are special demands during that time or if there is a peak period for you assistance when considering the farm bill. And, if so, will they take any special steps to communicate with the Congress and the public?

Mr. **Mizell**. Yes, we do. It is an ongoing process. Demands are greater because of the action of your legislative committees, your subcommittee hearings and the appropriations hearings. These involve the scheduling of witnesses, and making sure that the members of the committees have the proper information about those witnesses. There is an increased demand, and it is for that reason that we have to double track.

Steve Dewhurst, of course, is a primary contact with the committee. And our role, as it relates to the appropriations, is, of course, not as great, as Steve's. We merely support him in whatever area he would like for us to.

Mr. **Akaka**. Thank you very much, Mr. Chairman.

PLIGHT OF AMERICAN FARMERS

Mr. **Whitten**. I don't know that you are in the area of public relations. A woman in my district wrote me that FmHA was taking her farm. She and her husband raised 12 children on this small farm in Whitman County, Mississippi, and they were going to take it now.

Today, I received a letter from a woman in the community from which I come. She was past due on her residence, and she had $100—that was all. FmHA, acting on an order, refused to take it because she owed $700. They have come up with a great new program now. They don't take a fellow's house, they let him lease it—to save face, I presume—with an option to buy five years in the future.

FARM AID/U.S. FOREIGN AID

And yet in the supplemental that we had last year, the last one we had, we had some items for this country and had all sorts of argument about them. We also had a request for increased foreign aid, and didn't get a single complaint about that.

I am serious when I say: Don't you think we should ask the President to put Mr. Baker in charge of Agriculture, where he has money, and put the Secretary of Agriculture where he can tighten up on foreign aid as he has done for the American farmer? Further, all these cuts for 1987 will go to increased carryover funds for military and increased foreign aid. I am waiting for an answer.

Mr. **Mizell**. Mr. Chairman, I think we have one of the best, most experienced, and most knowledgeable men that we possibly could have as the current Secretary of Agriculture, and I think you would agree with that. We are not really ready to trade him. We would be willing to keep him.

Mr. **Whitten**. It is not the people I am talking about, it is the policies they deal with. I am talking about having Mr. Baker's viewpoint for the American farmer and Mr. Lyng's viewpoint for foreign aid.

Mr. **Mizell**. I can't answer as to what Secretary Lyng's attitude would be toward foreign aid, Mr. Chairman.

Mr. **Whitten**. We hope he will treat farmers favorably.

Mr. **Mizell**. I know that he said his number one priority would be the support of American agricultural exports——

Mr. **Whitten**. We all must support American agriculture.

Mr. **Mizell**. Support of agricultural exports is the Secretary's number one priority.

Mr. **Whitten**. Have you ever heard of anybody selling something below what a purchaser can buy it for from somebody else? The record shows this committee sponsored help for Ethiopia. However, if your price is not competitive, you couldn't sell anything in a country grocery store.

Mr. **Mizell**. That is right.

Mr. **Whitten**. We are not making our prices competitive, and the Department has refused to follow a policy which allows it to be competitive. Not only that, we have passed a farm bill, where we are cutting out the rest of our exports because you won't make the price competitive. Mr. Lyng can do anything in the world he wants to, but if he wants to sell it for prices higher than foreign purchasers can buy it for elsewhere, he is not going to have any success. He knows that.

Mr. **Mizell**. Mr. Chairman, you are well aware that the reduction in the loan rate was with the intent of trying to make our goods more competitive.

PUBLIC AFFAIRS BUDGET INCREASES

Mr. **Whitten**. I wonder if this has been turned over to you. I don't have it in front of me now. This year, the Office of Management and Budget has cut the daylights out of all the farm programs. Yet a cut of only one percent is all that is made for your agency. How do you justify cutting out 4-H Club work, Extension, rural education, all these other programs that go to people—but you folks, who tell the people how bad off they are, received only a nominal cut?

Mr. **Mizell**. Well, we like to distribute good news instead of bad news, Mr. Chairman. I know you appreciate that.

Mr. **Whitten**. Whatever you distribute it must be correct.

Mr. **Mizell**. In defense of our budget request, Mr. Chairman, with requests previous to this, since I have been here, we have had a reduction of 22 percent in personnel; we have had a reduction, I think, of 15 percent in actual dollars in our area. So, we really have gotten down to what we felt was really a bare-bones budget to carry out the responsibility that I think you want us to carry out. And, then, of course, we have added on the additional responsibility of the public liaison.

Mr. **Whitten.** It may appear we have an adversary position here because of where we stand. But as I have said, whatever you tell us we have to represent you before an urban Congress, which is often difficult.

GRAMM-RUDMAN REDUCTIONS

Mr. **Mizell.** And with the reduction of the 4.3 percent under Gramm-Rudman, in addition to those other cuts, Mr. Chairman, we feel very comfortable and very responsible in the amount that we are asking for to carry out our responsibilities.

Mr. **Whitten.** Thank you very much. We like the folks in the Department, but we don't like the end result. Somehow the Congress is going to have to find some way to correct this. You can't let your biggest industry go down. You can't hope to increase your debt by $1 trillion in five years, equal to the whole amount of debt accumulated in 200 years, without it showing up. I am scared to death about it.

If you read history you will find that, preceding the last depression, the bottom fell out of farming. We don't want that to happen again. We appreciate you and your associates, Mr. Mizell, and we know you are all-American, like the rest of us. But, between us, we had better come up with some answers, since the present program is twice as bad as it was before.

Judging by how many farmers are bankrupt, we had better return to the old law, where farm exports and commodity prices were tied to costs. Mr. Watkins has some questions he would like answered for the record.

Thank you very much.

TELECONFERENCING ACTIVITIES

Mr. **Watkins.** Could you provide a list of the teleconferencing activities occurring during the past year through USDA's new teleconference facility?

Response. I will gladly provide this information.

[The information follows:]

1. Subject: "Farm Bill"
2. Subject: "Residue Avoidance"
3. Subject: "Uplink Message"
4. Subject: "Farm Bill"
5. Subject: "Farm Bill"
6. Subject: "Farm Bill"
7. Subject: "Farm Bill"
8. Subject: "International Trade"
9. Subject: "Cargo Preference Act"
10. Subject: "New Budget Figures Related to Farm Bill"
11. Subject: "What U.S. Is Doing To Aid World Hunger"
12. Subject: "Nonpoint Source Pollution in Kansas City, MO"
13. Subject: "Tax Reform and the Farm Situation"
14. Subject: "Farm Policies"
15. Subject: "Agricultural Communicators in Education" (ACE)
16. Subject: "Farm Bill"

BROADCASTING AND PRINTING

Mr. **Watkins.** How much of your budget is being dedicated to broadcasting activities? to printing activities?

Response. The total direct appropriation funding dedicated to broadcasting activities is $610,067 and for printing activities the total funding is $1,457,241.

BROADCASTING EQUIPMENT

Mr. WATKINS. It terms of quality, what is the status of your broadcasting equipment?

RESPONSE. First, to clarify your question, we do not broadcast on either radio or television per se. That is, we do not have transmitting equipment as do radio and television stations to broadcast their signal to listeners and viewers. Our equipment is production equipment, for example, audio and video tape recorders, tape editors, TV cameras, and control boards. With this equipment, we prepare programming materials for radio and television stations to use. Our broadcasting equipment is adequate for the job. Some is relatively new, some older. This equipment produces radio and television products that are well within broadcast standards. The older equipment was installed in a major overhaul of the radio control room ten years ago.

Mr. WATKINS. Are you adequately equipped to do a proper job in broadcasting?

RESPONSE. The equipment we have is basic; no frills but adequate. Naturally, there are instances when we would like to have more "state-of-the-art" equipment to be more in line with the production capabilities of the stations receiving our materials. We make every effort to acquire this type equipment when it becomes necessary to replace an existing piece of equipment.

Mr. WATKINS. What major pieces of broadcasting equipment were acquired last year?

RESPONSE. Only one major piece of production equipment was purchased during the past fiscal year. It was a BetaCam ENG, an electronic news gathering system for use in television production work.

RADIO AND TELEVISION

Mr. WATKINS. Does USDA continue to provide broadcasters in both radio and television with news feeds and at what frequency? Is this adequate to service the needs of agriculture broadcasters?

RESPONSE. We provide a daily radio news service to farm broadcasters. This service is available on the telephone, and farm broadcasters access the service by calling us long-distance. The service is committed to provide the important news stories from the Department each day. Consequently the number of stories varies from day to day. The news service each day receives calls from between 110 and 150 stations.

We provide a weekly television news actuality service to farm broadcasters. This service is available from satellite. The service contains 15 minutes of stories oriented to the issues of the week, plus appropriate news features. However, we believe our efforts in conjunction with the news agencies are providing adequate service to agricultural broadcasters.

STAFF YEARS IN BROADCASTING AND PRINTING

Mr. WATKINS. How may staff years are used in broadcasting and how many are in print?

RESPONSE. In OGPA six staff years are used in broadcasting and twenty-two staff years are used in printing activities.

NEW ACTIVITIES

Mr. WATKINS. What new activities have been conducted by your agency since last year?

RESPONSE. Selected examples of new activities conducted by this office are:

Teleconferencing—we conducted 150 audio conferences, 30 news conferences and 16 teleconferences.

Satellite Use—Satellite distribution of information increased significantly. Information delivery was more timely while at the same time being more cost effective.

Electronic Dissemination of Information (EDI)—through EDI we provide a one-stop electronic information service whereby information users may retrieve USDA information in a rapid and timely basis.

Regional Editors' Conferences—in cooperation with USDA's Office of Consumer Advisor and the Food and Drug Administration, a series of five regional food editors' conferences were presented.

Freedom of Information & Privacy Act—Departmental coordination and administration of the Freedom of Information Act and Privacy Act was merged within OGPA.

Photocomposition—OGPA is now responsible for providing photocomposition to the Department. Modern technology is enabling a high quality service at a reasonable cost to the users.

Dietary Guidelines—in cooperation with the Department of Health and Human Services a revision of "Nutrition and Your Health: Dietary Guidelines for Americans" has been published and is now being reprinted by several private sector organizations with planned distribution in the thousands.

FARM NEWSCAST

Mr. **Watkins**. Has USDA considered doing a balanced, unbiased farm newscast on a daily basis that could be distributed to public television around the country?

Response. We have explored a number of ideas to make information from USDA more available to the people through radio and television stations. We cover the news of the Department on a daily basis at present, and the number of stories range widely from day to day according to what is available from the Department.

TRANSFER OF PUBLIC LIAISON

Mr. **Watkins**. Since the public liaison duties have been transferred to your office, has the budget for this activity been transferred from the Office of the Secretary?

Response. No funds were transferred from the Office of the Secretary, when the Office of Governmental and Public Affairs assumed the public liaison function.

FOOD IRRADIATION

Mr. **Watkins**. Have you printed any pamphlets or other materials for public consumption on the topic of food irradiation and other alternative food treatments? If not, why not?

Response. The National Agricultural Library has developed consumer/research finding aids such as directories of experts, institutions, associations, and current research in food irradiation. The Library has also published a listing of subjects bibliographies dealing with food irradiation for public consumption. In addition, the Food Safety and Inspection Service, has issued a background fact sheet on "Irradiation of Fresh Pork to Prevent Trichinosis.

PRESS RELEASES

Mr. **Watkins**. As USDA begins to computerize county offices, are you using this or will you be using this to transmit press releases on various programs such as signing up on commodity programs or on FmHA policy change?

Response. Some USDA agencies transmit selected press releases to their State or county offices connected through their own computerized systems or through the Department's Telemail service provided under contract with GTE Telenet, and to Cooperative Extension Service offices and State Departments of Agriculture through the Department's other computerized service provided under contract with Dialcum Incorporated. As more USDA agencies expand their computer systems, more information will be transmitted electronically to field units.

FUTURE OF OGPA

Mr. **Watkins**. What are your plans for the future of this agency 5 years from now? 10 years from now?

Response. The Office of Governmental and Public Affairs will continue to maintain and adapt to the new technology in the area of communications in order to provide input from and to local and State Government. Also, we will continue to search for new and better ways to enhance our outreach effort.

JAMES B. BOILLOT
DIRECTOR, CONGRESSIONAL AFFAIRS
UNITED STATES DEPARTMENT OF AGRICULTURE

James B. Boillot became Director of the Office of Congressional Affairs for USDA. Boillot, who has twice served as Director of Agriculture for the State of Missouri, is a native Missourian and life-long farmer in central Missouri. During his farming career he was selected as Missouri's outstanding commercial pork producer and the farming operation was recognized for innovation and conservation activity.

During his service as Director of Agriculture, Boillot was chosen to serve on numerous Federal Advisory Committees. He also served as President of the Midwest Association of State Departments of Agriculture, President of the Mid-America International Agri-Trade Council and was President-elect of the National Association of State Departments of Agriculture. Boillot is listed in Who's Who in the Midwest.

Boillot was active in farm organizations and community groups, serving as President of the Missouri Pork Producers' Association, President of his County Farm Bureau, Chairman of the Extension Council and as a member of the Missouri Farm Bureau Federation Board of Directors.

Boillot's career in agriculture began when he was elected as Vice-President of the Missouri Association of Future Farmers of America and awarded the American Farmer degree. He has been the recipient of numerous citations and awards including Gamma Sigma Delta, "Merit Award for Service to Agriculture", the Centennial Award from the University of Missouri College of Agriculture, the Faculty-Alumni Award from the University of Missouri, the "Builder of Men" Award from the Missouri Farm House Association and was selected as "Man of the Year" by the Missouri Agri-Industry Council.

A graduate of the University of Missouri with BS and MS degrees, Boillot has been active in alumni association work and has served as President of the Missouri Farm House Alumni Association.

He and his wife Phyllis are parents of a son and two daughters and prior to moving to Washington, D.C. resided on their farm near Columbia, Missouri.

He is an active member of the Presbyterian Church.

RAYMOND D. LETT

On February 18, 1986, Raymond D. Lett assumed the position of Director of Intergovernmental Affairs. He previously served as Assistant Secretary for Marketing and Inspection Services, U.S. Department of Agriculture. Prior to being appointed to this position, he was Secretary John R. Block's Executive Assistant.

While serving as Secretary Block's Executive Assistant, Lett was Co-chairman of the Extension in the 80's program and a member of the Blue Ribbon Panel for the USDA Library of the Future study. He was Chairman of the Board of Directors of the USDA Graduate School as well as Director of the Information Resource Management program for 2 years.

A graduate of Iowa State University, Lett has majors in Agricultural Education and Farm Organization and has been actively involved in agricultural administration for many years. He served as Assistant Director of the Illinois Department of Agriculture and was State Executive Director of the U.S. Department of Agriculture's Agricultural Stabilization and Conservation Service (ASCS) in Springfield, Illinois. While serving in the latter position, he received the ASCS Administrator's Award and the U.S. Department of Agriculture's Superior Service Award for his managerial expertise. Prior to his ASCS service in Illinois, Lett was with the County Extension Service in Iowa and taught high school vocational agriculture in Iowa and Illinois.

For 20 years Lett has been active in the operation of a 500-acre grain and hog farm in Kendall County, Illinois. He was a member of the Kendall County Farm Bureau, a past president of the Illinois Capter of the Soil Conservation Society of America and past president of the Springfield Federal Executive Club. He was also president of the Springfield Downtown Rotary Club, and chairman of the board of the Cherry Hills Baptist Church.

He and his wife, Sharon, have three children. They reside in Vienna, Virginia.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

Statement by Wilmer D. Mizell, Assistant Secretary,
before the House Subcommittee on Agriculture,
Rural Development, and Related Agencies

Mr. Chairman and members of the Subcommittee, I am pleased to be here to discuss the fiscal year 1987 request for the Office of Governmental and Public Affairs (OGPA).

I have with me today James Boillot, the newly-appointed Deputy Assistant Secretary of Governmental and Public Affairs, John McClung, Director of the Office of Information, and Raymond Lett, newly-appointed Director of the Office of Intergovernmental Affairs.

As you know, OGPA is responsible for communicating departmental policy and program information to the public, the Congress, and State and local governments. Through leadership and coordination, we are the communication core of the Department of Agriculture.

We are in an age of rapid technological change in the ways in which we communicate agricultural information to the members of the public. Through the use of electronic communications, satellite transmissions, and advancements in print technologies, we are and will continue to serve the public.

Additionally, organizational streamlining and program evaluation are ways in which we continue to develop one of the most efficient communications operations in the Federal Government, while at the same time enabling us to be more efficient in communicating to larger audiences.

During the past year, the Public Liaison activities of the Department were assigned to my office. Public Liaison's function is outreach--to broaden the knowledge of agricultural issues. Some of its programs, such as Private Sector Initiatives are aimed at specific audiences. Others, such as the Spokespersons Program, are designed for the general public and cover a broad range of agricultural topics.

During fiscal year 1986, several program functions, such as some of those in Public Liaison, are being financed through cooperative arrangements with USDA agencies; for which, direct funding is requested for fiscal year 1987.

FISCAL YEAR 1987 BUDGET REQUEST

I am requesting a funding level of $8,570,000 for fiscal year 1987 This includes, as previously mentioned, activities that were funded through cooperative arrangements with other USDA agencies.

The fiscal year 1987 appropriation request is $82,000 less than our adjusted appropriation for fiscal year 1986. This is a 1 percent reduction and reflects operating efficiencies and management savings which will be accomplished by realignment of workloads, use of office automation, and general operating economies.

We will continue to publish the Yearbook of Agriculture and expect to print 232,250 copies.

This concludes my statement, Mr. Chairman. I will be happy to respond to questions.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

Purpose Statement

The Office of Governmental and Public Affairs was established by consolidation of the Offices of Congressional and Public Affairs, Intergovernmental Affairs and Communications pursuant to Secretary's Memorandum No. 1927, dated October 5, 1977, and the authority contained in 5 U.S.C. 301 and Reorganization Plan No. 2 of 1953 (7 U.S.C. 2201).

Governmental and Public Affairs serves as the central organization to insure consistency and coordination of the Department's public information and external affairs activities, to maintain liaison with the Congress and White House on legislative matters, and to maintain liaison with State and local governments.

The three major programs are:

1. Public Affairs. Provides direction, leadership and balance in the development and delivery of useful information through all media to the public on USDA's research, educational and regulatory activities. It also serves as the focal point for liaison between the Department and the Public, including the many associations and companies representing America's food and fiber system, with emphasis on policy education.

2. Congressional Relations. Maintains liaison with the Congress and the White House on legislative matters of concern to the Department and exercises responsibility for the coordination of all Congressional matters except budgetary affairs of the Department.

3. Intergovernmental Affairs. Directs and coordinates all programs involving the implementation of USDA policies and procedures applicable to the Department's intra and intergovernmental relations.

The Office of Governmental and Public Affairs also provides centralized services financed through the Working Capital Fund in the areas of video and film, design and exhibits and printing. The agency is located in Washington, D.C. As of September 30, 1985, there were 141 full-time employees and 14 part-time employees.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

Available Funds and Staff-Years

1985 Actual and Estimated 1986 and 1987

ITEM	1985 Actual		1986 Estimated		1987 Estimated	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Direct Appropriation....	$8,762,067	135	$8,652,000	136	$8,570,000	141
Obligations Under other USDA Appropriations:						
Photographic Services...	107,311	1	145,000	1	--	--
Consolidated Orders.....	206,419	--	100,000	--	--	--
Electronic Dissemination of Information.........	--	--	90,000	--	--	--
Food and Agriculture Councils...............	--	--	102,000	1	--	--
Office of Emergency Preparedness...........	149,246	--	--	--	--	--
Resource Management Staff.................	30,000	2	45,000	2	47,000	2
Total, Reimbursements	492,976	3	482,000	4	47,000	2
Working Capital Fund:						
Motion picture, photography and other visual information.....	3,269,000	21	3,045,000	21	2,905,000	21
Total, Working Capital Fund................	3,269,000	21	3,045,000	21	2,905,000	21
Total, Other USDA Appropriations.........	3,761,976	24	3,527,000	25	2,952,000	23
Total, Agricultural Appropriations.........	12,524,043	159	12,179,000	161	11,522,000	164
Non-Federal Funds:						
Photography Services....	13,292	--	15,000	--	15,000	--
Total, Office of Governmental and Public Affairs	12,537,335	159	12,194,000	161	11,537,000	164

Full-time Equivalent Staff-Years:	1985 Actual	1986 Estimate	1987 Estimate
Ceiling.................	155	157	160
Non-ceiling.............	4	4	4
Total...................	159	161	164

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

Permanent Positions by Grade and Staff-Year Summary 1985 and Estimated 1986 and 1987

Grade	1985	1986	1987
	Headquarters/Total	Headquarters/Total	Headquarters/Total
ES-4	3	3	3
GS/GM-15	13	14	14
GS/GM-14	28	29	29
GS/GM-13	19	20	20
GS-12	16	15	17
GS-11	7	8	7
GS-10	--	--	--
GS- 9	4	3	4
GS- 8	6	6	6
GS- 7	12	12	13
GS- 6	15	15	15
GS- 5	7	7	6
GS- 4	3	3	3
GS- 3	0	0	0
Ungraded Positions	8	8	9
Total, Permanent Positions	141	143	146
Staff-Years:			
Ceiling	155	157	160
Non-Ceiling	4	4	4
TOTAL	159	161	164

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

CLASSIFICATION BY OBJECTS

1985 and Estimated 1986 and 1987

		1985	1986	1987
Personnel Compensation:				
11	Total personnel compensation	4,696,531	4,880,100	4,880,000
12	Total personnel benefits	511,312	536,900	542,000
13	Benefits for former personnel..................	14,060	3,000	3,000
	Total Personnel Compensation and Benefits	5,221,903	5,420,000	5,425,000
Other Objects:				
21	Travel	89,294	183,000	196,000
22	Transportation of things.....	19,446	14,000	--
23.1	Rental payments to GSA.......	39,023	--	--
23.3	Communication, utilities and other rents	647,868	606,000	606,000
24	Printing and reproduction ...	845,988	1,281,000	1,336,000
25	Other Services	1,422,245	973,000	794,000
26	Supplies and materials	179,414	126,000	104,000
31	Equipment	145,600	49,000	109,000
	Total other objects	3,388,878	3,232,000	3,145,000
	Total direct obligations	$8,610,781	$8,652,000	$8,570,000
Position Data:				
	Average Salary, ES positions	$68,700	$68,700	$68,700
	Average Salary, GS positions	$29,306	$30,087	$29,532
	Average Grade, GS positions	10.83	10.91	10.92

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

The estimates include appropriation language for this item as follows (new language underscored; deleted matter enclosed in brackets):

Office of Governmental and Public Affairs

For necessary expenses to carry on services relating to the coordination of programs involving public affairs, and for the dissemination of agricultural information and the coordination of information, work and programs authorized by Congress in the Department, [$6,758,000] $7,624,000, of which not to exceed $10,000 shall be available for employment under 5 U.S.C. 3109, and not to exceed $2,000,000 may be used for farmers' bulletins and not fewer than two hundred thirty-two thousand two hundred and fifty copies for the use of the Senate and House of Representatives of part 2 of the annual report of the Secretary (known as the Yearbook of Agriculture) as authorized by 44 U.S.C. 1301: Provided, that in the preparation of motion pictures or exhibits by the Department, this appropriation shall be available for employment pursuant to the second sentence of section 706(a) of the Organic Act of 1944 (7 U.S.C. 2225).

For necessary expenses for liaison with the Congress on legislative matters, [$495,000] $486,000.

For necessary expenses for programs involving intergovernmental affairs, [emergency preparedness,] and liaison within the executive branch, [$467,000] $460,000.

This change deletes language authorizing emergency preparedness activities that were transferred to the Office of Personnel.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

Appropriation Act, 1986	$7,720,000
Budget Estimate, 1987	8,570,000
Increase in Appropriation	+850,000

Adjustments in 1986:		
Appropriations Act, 1986	$7,720,000	
Less Pro-Rata Reduction, P.L. 99-190.	-47,000	
Net Appropriations	7,673,000	
Activities Converted from Reimbursable to Appropriated Funding a/	+984,000	
Transfer to Departmental Administration for Reimbursable Activities b/	-5,000	
Adjusted base for 1986		8,652,000
Budget Estimate, 1987		8,570,000
Decrease from adjusted 1986		-82,000

a/ A transfer of $984,000 from USDA agencies is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

b/ A transfer of $5,000 to Departmental Administration is to fund activities previously financed on a reimbursable basis as a direct appropriation in FY 1987.

SUMMARY OF INCREASES AND DECREASES
(On basis of adjusted appropriation)

Item of Change	1986 Estimated	Program Change	1987 Estimated
Public Affairs	$7,696,000	-$72,000	$7,624,000
Congressional Relations	492,000	-6,000	486,000
Intergovernmental Affairs	464,000	-4,000	460,000
Total Available	8,652,000	- 82,000	8,570,000

PROJECT STATEMENT
(On basis of adjusted appropriation)

Project	1985 Actual		1986 Estimated		Increase or Decrease	1987 Estimated	
	Amount	Staff Years	Amount	Staff Years		Amount	Staff Years
Public Affairs	$7,717,601	118	$7,696,000	121	-$ 72,000	$7,624,000	124
Congressional Relations	420,320	11	492,000	11	-6,000	486,000	11
Intergovernmental Affairs	472,860	4	464,000	4	-4,000	460,000	5
Unobligated balance	151,286	- -	- -	- -	- -	- -	- -
Total available or estimate	8,762,067	133	8,652,000	136	-82,000(1)	8,570,000	140
USDA Newsletter	-157,895	- -	-187,000				
Visitor Information Center	-140,281	- -	-94,000				
TV Production	-243,000	- -	-243,000				
Dialcom	-195,000	- -	-125,000				
Public Liaison	- -	- -	-145,000				
Photo Center Support	-14,132	- -	-20,000				
Photo Composition Unit	-361,601	- -	-170,000				
Subtotal, Shift to Appropriated	-1,111,909	- -	-984,000				
Transfer to Departmental Administration	+6,842	- -	+5,000				
Total, Appropriation	7,657,000	- -	7,673,000				

EXPLANATION OF PROGRAM

This appropriation for the Office of Governmental and Public Affairs funds the activities established by consolidation of the offices of Congressional and Public Affairs, Intergovernmental Affairs and Communications pursuant to Secretary's Memorandum No. 1927, dated October 5, 1977, and the authority contained in 5 U.S.C. 301 and Reorganization Plan No. 2 of 1953 (7 U.S.C. 2201). The activities carried out are as follows:

-- Public Affairs - This activity provides direction, leadership and balance in the development and delivery of useful information through all media to the public on USDA programs.

-- Congressional Relations - Maintains liaison with the Congress and the White House on legislative matters of concern to the Department and exercises responsibility for the coordination of all Congressional matters except Congressional appropriations.

-- Intergovernmental Affairs - Directs and coordinates programs involving the implementation of USDA policies and procedures applicable to the Department's intergovernmental affairs and relations with other Departments.

JUSTIFICATION OF INCREASES AND DECREASES

(1) A decrease of $82,000 in operating costs to reflect operating efficiencies and management savings. These will be accomplished by realignment of workloads, use of office automation, and general operating economies.

GEOGRAPHIC BREAKDOWN OF OBLIGATIONS AND STAFF YEARS 1985 and Estimated 1986 and 1987

	1985		1986		1987	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Washington, D.C.	$8,610,781	133	$8,652,000	136	$8,570,000	140

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

STATUS OF PROGRAM

The Office of Governmental and Public Affairs (OGPA) provides direction, coordination and leadership in the delivery of information to farmers, agribusiness and consumers; maintains liaison with the Congress and White House on legislative matters of concern to the Department and the public; and coordinates all programs involving intergovernmental affairs with State and local governments. The success of Department initiatives often depends on the effectiveness of public information programs in creating national public awareness, understanding and acceptance.

Activities under this appropriation are carried out through three major program areas: Public Affairs, Intergovernmental Affairs, and Congressional Relations.

PUBLIC AFFAIRS

Current Activities:

OGPA is the Department's clearinghouse for providing the media with current information about the Department's programs and policies, in the form of news releases, news features, background statements, speeches, reports and other information. It also works closely with the agencies and the Office of the Secretary in providing feedback to top officials on what is being said about Department actions, programs and policies in the popular and trade press.

An innovator in the area of electronic dissemination of information, OGPA continues to offer and expand services to the public for accessing information electronically, such as national and regional news releases and economic and statistical reports. OGPA also serves as the central processing unit for a burgeoning number of requests filed by various individuals and groups for data under the Freedom of Information and Privacy Acts.

USDA provides four types of radio and television services to various stations:

> The Weekly Radio Service has distribution to hundreds of stations. This service is available on tape and includes "Agri-Tape/Farm Program Report," which is distributed to over 900 stations, "Consumer Time," sent to more than 500 stations, "Hispanic Information Service," received by over 100 stations, and "Agriculture USA," sent to over 300 stations.
>
> The "USDA Radio News Service" provides three to twelve news stories on a daily basis. More than half the stories contain recorded comments or there are additional voice "actualities" added so stations and networks can update the original story. These are available by telephone with the stations picking up the toll cost.
>
> The television services provide a variety of weekly news and feature programs to stations and cable sytems, using videotape and/or satellite transmissions. Among these programs are "USDA Television News Service," a news actuality service; "Better Way," a half-hour consumer-oriented program; and, "Down to Earth," a farmer-oriented service.
>
> A monthly script service called "Radio Features," is also provided. It contains 14 to 16 consumer oriented stories. Script service is for use by stations' "on-Air" personalities. A weekly newsletter is provided for farm broadcasters and other industry people which recaps the week's major stories, information about content of available radio/TV services, and information about industry personnel.

OGPA maintains liaison with the Goverment Printing Office and the Joint Committee on Printing on matters pertaining to publication printing and distribution by the Department. Staff interpret and administer the statutes, policies, and regulations relating to the Department's publications program. Staff also advise agencies on all aspects of publishing and publications are reviewed prior to printing for content, policy and writing standards.

OGPA staff maintain the Department's inventory of publications and prepare the Department's catalogs. In addition, staff respond to over 50,000 letters requesting Department information.

A variety of other information services are available to the public. These include:

> Still photographs--These photographs are used to illustrate news releases and news feature stories. They are reproduced on the story and can be used by farm editors in their local papers.
>
> Photographs and Color Slides--A large number of photographs and color slides are kept in the Department's central files and are available for a small cost to the public. These materials cover the vast subject of agriculture and the many areas in American life that are associated with it.
>
> Slide Sets--USDA produces these sets on various agricultural topics and programs with printed scripts available for each set on request. Tape cassettes with narration can also be obtained. Both slides and narration are available to educational organizations, industry and the general publi for a nominal fee.

Photo and color slide files are constantly being updated in an effort to make available to the many people who use these services the latest photos or slides on any given agricultural subject.

OGPA provides speakers for agriculture groups both in Washington and outside Washington at conventions, meetings, etc. These USDA publics include such groups as commodity trade associations, general farm organizations, food and fiber processors, users, input suppliers and the general public.

OGPA is responsible for USDA liaison with private sector initiatives and works with the White House Office of Public Liaison in this regard.

A wide range of papers, studies, and strategies to articulate USDA policies are produced and disseminated to USDA publics. Meetings are organized with USDA constituents, the Secretary, and other officials regarding emerging issues.

Selected Examples of Recent Progress:

USDA created seven Department-wide information teams to improve the use of the Department's resources in support of USDA policies and programs. Each team developed and coordinated information programs covering specific subject areas, including International Trade and Aid, Scientific Research, Human Nutrition, Internal Communications, Educational Outreach, Conservation and Natural Resources, and Information Access Coordination and Administration. It was the international information team that planned the 1985 Yearbook of Agriculture entitled: U.S. Agriculture in a Global Economy.

The "Satellite Television Press Conference" is being increasingly used by the Secretary. He takes from eight to ten questions by telephone from farm broadcasters throughout the country, and USDA staff notify over 200 stations via telephone regarding the accessing and recording of the program from the satellite.

The "Radio Telephone Press Conferences" continue to be very popular. Thirty farm broadcasters are assembled on a teleconference bridge system. Usually 12-14 of the farm broadcasters may ask questions of the Secretary and other Department officials.

The 86th edition of the popular Yearbook of Agriculture was released. The theme was Aniaml Health--Livestock and Pets.

Information support was given to several national agricultural events, such as National Agriculture Day, National Farm-City Week, World Food Day, National Energy Awareness Week, Farm Safety Week, Farm Women's Forum, and the Secretary's Challenge Forum.

Implementing regulations were published to the Freedom of Information Act to provide guidance to the public and to USDA agencies on the administrative process for accessing USDA information.

Liaison projects with the public included Building Our American Communities (a Future Farmers of America project) and the Touch America Project whose main participant is the American Forestry Association.

The following table provides workload data relating to the publications activity.

Publications Printed:	FY 1984	FY 1985
Printing through main GPO or on contract:		
New and revised publications to the printer.............	256	318
Slight revisions and reprints to the printer............	90	98
Other printing orders written and placed................	6,698	5,898
Miscellaneous orders placed through GPO's Rapid Response Center (RRC), GPO's Regional Printing Procurement Offices (RPPO), Federal Prison Industries (Unicor), and Commerce..	206	1,754
Printing through USDA Printing Plant (OO):		
Miscellaneous orders placed through USDA Plant..........	326	170
Miscellaneous orders reviewed and cleared for printing in USDA Plant..	3,584	2,744
Waivers for jobs not presented to GPA for clearance.....	2,156	1,800
Total Printing Orders...................................	13,316	12,782

Publications Distributed:	Popular* FY 1984	Popular* FY 1985	All Publications FY 1984	All Publications FY 1985
(Number of copies in millions)				
Total stocks at start of year........	8.33	7.07	13.00	10.75
New publications printed.............	1.52	.01	25.30	2.76
Returned by SupDocs (loan)...........	.00	.01	.00	.01
Reprints and revisions printed.......	.92	3.56	3.02	18.91
Total available for distribution.....	10.77	10.65	41.32	32.43
Stocks disposed of...................	.01	.06	.09	.11
Stocks at end of year................	7.07	6.38	10.75	9.90
Total distributed....................	3.69	4.21	30.48	22.42

*Includes Farmer's Bulletins, Home and Garden Bulletins, Leaflets, Fact Sheets, and Yearbook Separates.

INTERGOVERNMENTAL AFFAIRS

Current Activities:

Intergovernmental Affairs maintains liaison with State and local government officials including Indian Tribal Councils and the official organizations representing them. The current agricultural climate requires an adequate conduit for understanding and interpretation of agricultural issues and Departmental matters. Specifically, OGPA staff respond to inquiries and requests from State and local government officials either personally, or through appropriate Governmental agencies, to address the particular issue or requests; monitor the activities of associations and organizations representing public officials to assure appropriate information is available to USDA officials; and assist in the preparation of briefing information for the White House and the Secretary. In the role of liaison, staff solicit State and local evaluation of issues to be addressed by USDA. Staff keep State and local officials advised of current and pending Federal actions that will have an impact on agriculture and rural America.

Selected Examples of Recent Progress:

OGPA staff developed a brief of State legislative actions adopted to address particular agricultural issues, i.e., credit, economic responses, water regulation, solid waste disposal, and soil conservation.

Staff provided informational packets to State and local officials to assure their knowledge of pending agricultural actions and to solicit their comments and suggestions.

OGPA visited State legislative agricultural committees to promote greater cooperation between State and local officials in responding to agricultural matters.

CONGRESSIONAL RELATIONS

Current Activities:

The Congressional Relations activity keeps members of Congress informed about Departmental developments and coordinates responses to Congressional inquiries and requests. Information regularly disseminated to the Congress includes grant announcements, projects awards, disaster declarations, program changes and any major Departmental accomplishments and activities.

In addition, staff coordinate Congressional hearings (except Appropriations hearings), respond to witness requests, and coordinate and track the clearance of testimony with the Department and the Office of Management and Budget to ensure timely and authorized replies for Departmental positions on legislation.

Staff provide day-to-day coordination with agency personnel, and arrange visits, briefings, and follow-up actions on concerns or problems that Members of Congress may have with decisions or actions taken by USDA. In this connection, staff coordinate and track of Congressional correspondence to the Department to ensure timely responses from the agencies; maintain liaison with White House legislative officials; and coordinate with the other Executive Departments to respond adequately to Congressional requests within the Department.

OGPA staff are responsible for tracking all legislation affecting the Department and works with Members of Congress and Congressional staff to ensure that the Department's position is known on this legislation. At the request of Members of Congress and the Department, staff provide briefings to farm organizations, consumer groups, Congressional staff associations and other groups on the operations of USDA and the current status of legislation.

WEDNESDAY, APRIL 23, 1986.

FARM CREDIT ADMINISTRATION

WITNESSES

KENNETH J. AUBERGER, ACTING CHAIRMAN
LARRY EDWARDS, CHIEF EXAMINER
FREDERICK MEDERO, GENERAL COUNSEL
GEORGE IRWIN, CHIEF ECONOMIST

Mr. WHITTEN. The committee will come to order. We have with us today Mr. Kenneth J. Auberger, Acting Chairman of the Farm Credit Administration.

We are glad to have you gentlemen before us. As you know, I questioned way back whether the farm credit system was wise to cut itself loose that is, when you became independent. The last few years have confirmed my view that any agency needs supervision. We have however insisted that you report to us once each year.

I would have to say that, with all the struggle we have had with agriculture, I haven't found any evidence of the farm credit system doing anything to help the farm situation. It is my view that we don't need a Farm Credit Administration if the farmer can't make any money. The system can't last if you don't help us to get a sufficient income above cost for the farmer.

I could say the same thing for NATO and a whole lot of other organizations where they are more interested in keeping the institution going than they are in helping the people for whom they are supposed to protect. This is not directed to you individually; it's just a fact of life.

I have spoken to a number of farm organizations; the only basis they have for existence is because of the number of farmers. It is my view that the government policy of refusing to offer what we produce and don't need to retain our overseas markets—it's definitely been a lot of the cause of the present agriculture situation.

Now, I am talking about basics primarily. We try to buy up the surplus perishable commodities and create a balance between income and outgo. However, even in that area, where dairy products are concerned, we have protected the market of New Zealand. We would not export to the hungry world the surplus that we have. We finally got around to insisting that the government do something about selling dairy products several years ago, so they let it be converted to butter oil and sold it to New Zealand which in turn sold it to Russia where New Zealand made all the profit.

So much of the problem that we have comes from government policy, which I think has been negligent.

The Commodity Credit Corporation, a $25-billion corporation, was set up for the purpose of supporting farm prices to offset high cost. It worked that way for years. It was set up to reduce the price to a competitive level in world trade so as to maintain your foreign markets. The Secretary refuses to use that authority. I haven't gone into the statute where he may be guilty of failure to give the government his best service. Not only that, but Mr. Butz did not use the Commodity Credit Corporation, which was set up for that purpose, but he at least moved commodities on world trade by giving a commission to international grain companies and cotton companies.

The point I make is: I want to know what you are doing to help solve the farm problem. We are interested in your institution, but only if you help to keep your participants.

As we understand it—and this is borne out by the testimony of the head of the Farmers Home Administration—he says he is not able to handle the volume of applications for operating loans where you dismiss the borrower from the local production credit associations.

Now, we on this committee certainly understand that the association is owned by the borrowers and that it has to protect the interests of the borrowers.

But in the overall the Farm Credit System has the responsibility of overseeing the production credit associations and to assure its responsibility to the farmer.

We also have the bank situation in rural areas. They are very slow to go ahead with loans. The record shows that this year the Farmers Home Administration requires a cash flow, and that less than 20 percent of the applicants are being approved.

Now, that's a regulation, as I understand. It is not required by law. That is done by Mr. Clark the head of FmHA.

So the situation we are interested in is not preserving your agency as such, but to preserve it for the benefit it will be to agriculture. You can only last by having us see that the farmer make some money. If he doesn't, we don't—as I've said—need a manager if you've lost the farm.

Now, I've read your statement—it's very carefully prepared, I will grant you that. You make it where it stirs us up as little as you can—but you can't hide the facts.

I might say the governor of FCA some years ago told me that if he testified with all the facts, he wouldn't be able to sell his debentures. I said, well, you will just have to tell us what you can afford to tell us.

I mention that, because this Committee, I think, is interested in what you are going to do under present conditions and what you are recommending to help the farmer make some money so he can continue to belong to his PCA.

You might proceed. Your statement will be in the record, and I think we would rather talk to you, or listen to you.

Mr. **Auberger**. Well, thank you, Mr. Chairman. I would like to introduce the gentlemen that are here with me this afternoon.

Mr. **Whitten**. We'll be glad to have their biographical sketches.

[Clerk's note.—Biographical sketches appear on pages 1033 through 1037. Mr. Auberger's statement appears on pages 1037 through 1054.]

Mr. **Auberger**. Fred Medero, our General Counsel; Larry Edwards, our Chief Examiner; and George Irwin, our Chief Economist. We have some people here, if we have some budget questions, to help us out also.

Mr. Chairman, I don't think there is any question that the Farm Credit System institutions are like commercial banks, very cautious these days with these significant large losses, operating losses as well as loan losses, in the past.

Mr. WHITTEN. Has the Farm Credit System taken a position on the necessary action that will move the production of the farmers into world trade? Have you taken any action to help the farmers you are supposed to be helping by lending them money since you seem to be quitting that?

Mr. AUBERGER. Well, I think the credit policies of the system are still designed to serve the creditworthy borrowers.

Mr. WHITTEN. That's right, but you lose track of whether you've got any obligation to talk to the government to see if you could get the government to keep agriculture healthy by selling its product overseas. Or do you accept that responsibility?

Mr. AUBERGER. Well, I think maybe you are getting into the question of farm policy and so forth, which——

Mr. WHITTEN. No, I'm getting into your lack of policy and your lack of practice. What is your practice? We can read the books about what you are supposed to do. What are you doing?

Mr. AUBERGER. Well, our practice, of course, is to cooperate with the Farmers Home Administration, for example.

Mr. WHITTEN. "Cooperate"—that's a broad word. What do you mean by it?

Mr. AUBERGER. Well, we stress it.

Mr. WHITTEN. Pat them on the back.

Mr. AUBERGER. We stress it, emphasize it, in short of pushing our lending institutions that way. Some of our institutions are no different than some of the commercial banks. There has been a little bit of a lack of enthusiasm about using some of these, because most of the programs require the institutions to take some type of a further write-off. These are institutions that are already seriously financially——

Mr. WHITTEN. Well, you realize that for the health of your agency and for it to exist, the farmer has got to make money, hasn't he?

Mr. AUBERGER. Yes.

Mr. WHITTEN. Well, if that is the key to it, why don't you help us increase farm income. You haven't taken any stand that I know of—your organization.

Mr. AUBERGER. The question I think you are asking is what can the lender do to increase income to producers, and I am not sure——

Mr. WHITTEN. Well, you know where that responsibility rests—with the Congress. You are not above lobbying for the Farm Credit System. Why shouldn't you lobby a little bit for the folks on whom you depend, the farmers?

Mr. AUBERGER. Well, I think other than just generally in favor of higher prices and export market increases and——

Mr. WHITTEN. Would you give me a copy of where you have taken that position as an organization?

Mr. AUBERGER. I'm not sure what we have written down on that.

Mr. **Whitten**. Well, you indicated you did when you said it.

Mr. **Auberger**. Well, I just know that that is the philosophy that exists within our agency.

Mr. **Whitten**. Well, a philosopher, you know, is usually not much of a worker.

Mr. **Auberger**. I'm afraid I really can't answer that question very directly.

Mr. **Whitten**. Well, if you have any place where you have taken a stand for increased price and for retaining your export market by using whatever means you have, I wish you would submit it to the Committee.

Mr. **Auberger**. We will if we have anything, yes.

Mr. **Whitten**. As you know, the legislative committee came in with the new Farm Security Act and it allows several agencies to just draw on the Commodity Credit Corporation. Sounds like they thought that corporation was an artesian well, money just flows out of it.

Were you a party to that?

Mr. **Auberger**. No, but the Commodity Credit Corporation——

Mr. **Whitten**. You are familiar with it?

Mr. **Auberger**. Yes. And it is a big factor in this——

Mr. **Whitten**. And you know the Commodity Credit Corporation stays broke because the government won't sell what its got on hand. If they did sell its products they could use the money they receive to revolve the fund, are you aware of that?

Mr. **Auberger**. It's a very popular program today, as you know.

Mr. **Whitten**. How's that?

Mr. **Auberger**. It's a very popular program today.

Mr. **Whitten**. That's not in answer to what I asked you. Are you aware that if they would just sell CCC inventories they could take the money and continue their operation, which is what they are supposed to do?

Mr. **Auberger**. No, I wasn't aware of that.

Mr. **Whitten**. Well, don't feel badly. Years ago when we had a similar agriculture situation, I spoke to the agricultural attaches in Paris, France, from all over the world. I said to them "those that know the government could sell its inventory for cash hold up your hand." Not a hand went up. We were doing it through monkey business, P.L. 480, and various and sundry other means.

Now, if you want to sell something, lay it on the counter and make the price competitive. Why doesn't the government use that practice, and why doesn't the Farm Credit System advocate that when you know the farmers are dependent on keeping up volume, keeping up price, and holding down cost?

Mr. **Auberger**. I appreciate your questions, Mr. Chairman, but I think our mission is basically to look out for the safety and soundness of the institution. We just don't get into the business that you are talking about.

Mr. **Whitten**. Well, if you won't help bail yourself out, do you think we should try?

Mr. **Auberger**. I think if there was anything we could do, we would. But our paramount mission——

Mr. WHITTEN. Well, I ask you to submit to the Committee any document that shows where your organization has advocated increased farm income, either by keeping up volume or keeping up price.

Mr. AUBERGER. Well, I know that in the past, our statements, including those of Governor Wilkinson, have always stressed that the problem was income, it wasn't necessarily on the cost side.

Mr. WHITTEN. Net income.

Mr. AUBERGER. The lack of income, that that was the thing the farmers were missing.

Mr. WHITTEN. I hope you will touch on this, if you can—and I yield at this time to Mrs. Smith. We will be glad to have your statement in the record, and you could touch on the highlights—maybe that's better—so could you do that? But I do think it's carefully written so as not to stir up any more than you have to.

Mr. AUBERGER. I did have a short statement, if you would like me to read it.

Mr. WHITTEN. Well, we haven't got that much time. If you can do it in a hurry but you've got this many pages, I don't believe——

Mr. AUBERGER. I have a very short version.

Mr. WHITTEN. Well, the full version will be in the record. Touch on what you would like.

Mr. AUBERGER. I wanted to emphasize that since enactment of the Farm Credit Amendments Act at the end of 1985, that the Farm Credit Administration's highest priority has been working on implementing the key provisions of that Act. In the last hundred days we think we've made remarkable progress there.

The Farm Credit System Capital Corporation, which was authorized by the amendments, has been chartered and is operational. Necessary implementation regulations have been adopted.

The Farm Credit System elected directors as well as the FCA appointed directors have been seated, and the first board meeting has been held.

A final regulation dealing with the Capital Corporation's assessment authority will be published very shortly. That assessment regulation will enable the Corporation to carry out all of its statutory authorities and begin the process of fully utilizing the System's capital resources to deal with the financial problems.

Proposed capital adequacy regulations applicable to System institutions are in the process of being finalized right at this very moment.

Proposed amendments to implement the FCA's enforcement powers have been drafted and proposed for public comment.

Proposed regulations on borrower rights have been completed and will be published soon for public comment.

The FCA has also put into place final regulations which require comprehensive disclosure of financial and operational information on banks and associations to the stockholders on both an annual and a quarterly basis. System institutions are going to be required to have annual audited financial statements as well as make comprehensive credit monitoring reports to FCA.

Finally, the FCA has begun the important and critical process of strengthening and expanding its examination function. Those procedures will cover both banks and associations. The cost of strengthening and expanding this function, of course, is the primary if not the sole reason for the increase in our budget request to you.

The Amendments also strengthen the System in several ways. Fulfilling the intent of the Congress, the newly created Farm Credit System Capital Corporation will act as the System "workout" bank. They will acquire the nonperforming assets from System institutions, or participate in such assets, which it will then hold, restructure, collect, or otherwise administer. The Corporation will also carry out a program of financial assistance among institutions of the System. The Amendments also provide a mechanism for requesting Federal financial assistance should that be necessary, and that assistance would be administered by the Capital Corporation.

Mr. Chairman, 1985 was unquestionably the most difficult in the Farm Credit System's history. It had combined operating losses of $2.7 billion compared to a net earnings of $373 million the year before.

Loan charge-offs were $1.1 billion compared to $427 million a year earlier. Non-accrual loans have increased from $1.8 billion to $5.3 billion, and acquired properties rose from $505 million to $926 million. The loan portfolio decreased $10 billion, from $79.8 to $69.8 billion.

Capital declined from $11.8 billion to $8.3 billion. And risk funds, which includes allowance for losses, fell from $13.2 billion to $11.5 billion.

But despite these negative figures, the System remains relatively strong from a financial standpoint today.

For 1986 we see no real signs of improvement. Farmers and their lenders will continue to experience severe stress; and the Farm Credit System will continue to experience large loan and operating losses.

There are a couple of bright spots on the horizon. One is that the rates paid for Farm Credit securities are on the decline, and it looks like we can expect to see a continuation of that in 1986. And to the extent those rates continue to come down a little more, hopefully the rates that are charged by the institutions will come down a little. Second, the drop in the price of oil is hopefully going to have some impact on the cost to the farmer, to the producer. And anything which reduces the farmers' cost, of course, benefits the lender as well.

Mr. Chairman, that concludes my brief statement.

Mr. WHITTEN. I notice here that you thought land values would drop another 2 or 3 percent. The head of the Farmers Home Administration said they already had over a million acres of land. I told him unless he changes lending policy, it's going to be in the millions.

Now, in my area land that was $1,000 an acre 18 months ago went down to $250—they can't even get that. In my own area—not my immediate area, but in the Mississippi delta, which is close to me—land that sold for $2,000 two years ago sells for $800.

On what do you base your estimate that land is going down only 2 or 3 percent ?

Mr. AUBERGER. Mr. Chairman—and, George, you can correct me—I think those are figures which are Federal Reserve and Department of Agriculture figures, isn't that right?

Dr. IRWIN. Those numbers appear in our outlook statement. As you are probably aware, it was 12 percent in '84 and it was 12 percent in '85 again.

We project a drastic slowdown in the rate of drop because we do not expect financial institutions to be dumping these properties. As you are probably aware, the creation of the Farm Credit Capital Corporation by Congress late last year was designed exactly to help stabilize against that dumping.

But the further reason is that in many places where we have had land price drops over the last five years really in the central parts of the farm belt, it is getting down to the point now where it is generating a cash flow that is pretty near a historic rate of return on that land. And that means that it has to start looking much more attractive.

Mr. WHITTEN. You mean it has about hit bottom?

Dr. IRWIN. Yes, exactly.

Mr. WHITTEN. So it hasn't got much more distance to drop.

Dr. IRWIN. I would say that you would have to regard this as highly variable, depending on what part of the country you are looking at. For most of the country, for instance, the oil-price drop is a favorable sign; it lowers your cost for fertilizer and fuel and chemicals and a bunch of other things. But if you are in an oil-producing area, it is negative for land values and it is negative for the cash flow you have to repay.

Mr. WHITTEN. I guess I am unduly hard about some of these things, but I came along during the Depression when you could go a hundred miles from my town in any direction and you'd be lucky to find one person who owned his land. He either owed it to a land bank, Mississippi Joint and Stock Land Bank, or one of the insurance companies or the Federal Land Bank. I couldn't get the Federal Land Bank in my area to delay a foreclosure one week. But the point I make is: I can't find where any of you lenders have helped in any way to try to get a farm program where the farmer could live. If there has been any, I haven't seen it.

And yet if we are going to continue to support you, and if you are going to continue to do the same things as in the past, you can't last. The farmers have to start making some money. The latest farm bill—the record shows that because of one of its provisions, the price of cattle has gone down $6 to $8 per hundredweight. The dairy cows have been dumped on the market.

I would like for you to put in the record the number of borrowers you have removed from various PCA's for the years 1983, 1984, 1985—how many less loans are you making this year and what percentage are you turning down, how many have you already turned down? If you have that, we will be glad to have it orally; if not, we would be glad to have it provided for the record.

Mr. AUBERGER. I have some figures here on denials, Mr. Chairman, for 1985—but, if we get into more detail, we can furnish that for the record.

Mr. WHITTEN. May I say, while you look for that—and we will go back to it—I am very proud of the great job that has been done back through the years. One of the greatest things to happen was when we got to where a farmer paid interest only for the time he used the money. Back before the Farm Credit System got into the picture, banks charged you for a year's interest and you perhaps used it for three or four months.

So breaking up that did a great service. But the present situation—as I understand it—is one where you protect the present borrowers which leads you to have to let the others go and they turn to FmHA. But when you let them go—and we have a Farmers Home Administration that says it can't handle it—you just turn the farmer out to graze.

Mr. AUBERGER. The figures I am going to give you are formal denials, which was a requirement then to go over to Farmers Home. On the land bank side, the total was 11,323; on the PCA side, 7,874.

Mr. WHITTEN. Those are the ones you had to let go?

Mr. AUBERGER. Those were formal denials. They are not necessarily the ones who have gone for other reasons.

Mr. WHITTEN. How many of those, if you have the records, were picked up by the Farmers Home Administration, which is kind of the lender of last resort?

Mr. AUBERGER. I don't know how many of those would have found success over there.

HELP FOR THE FARMER

Mr. WHITTEN. Mr. Auberger, I read your statement with great interest. We are in a time of agricultural crisis, which your statement has reflected. I heard a lot about the problems of agriculture; a lot about the System; and, particularly, a lot about what the System is doing to help itself. But, I heard nothing about what the Farm Credit Administration is doing to help the farmer?

Mr. AUBERGER. The most important thing FCA can do to help farmers is to ensure the financial safety and soundness of the Farm Credit System. By insisting that the System operate on a sound financial basis, FCA does its part to make sure that a viable lending system is maintained to make credit available to creditworthy farmers.

Moreover, the FCA has, and will continue to urge System lenders to help farmers by establishing market-oriented, loan-pricing programs tht depend on the use of differential interest rate programs. The System can offer farmers a more equitable interest rate based on risk and through matched funding of loan terms with System securities. Recognizing that not all farmers may be eligible for these lower rates, FCA has also urged System lenders to participate in Farmers Home Administration loan guarantee and other programs, whenever possible.

THE FARM CREDIT AMENDMENTS ACT

Mr. WHITTEN. The new Farm Credit Amendments Act gives FCA new broader authorities as a regulator. Could you give us a layman's description of FCA's new role as a regulator versus its historical role?

Mr. AUBERGER. The Farm Credit Amendments Act of 1985 grants FCA enforcement authority and increased examination authority over System institutions that parallels the authorities of the other independent Federal financial institution regulators. Prior to the 1985 amendments, FCA did not have these enforcement powers, but relied heavily on moral suasion to accomplish its objectives.

Mr. WHITTEN. How would you categorize FCA's role and power with say the Federal Deposit Insurance Corporation? As a comparison, how many examiners per institution does FDIC have versus what FCA will have if it completes its staffing increase of 274 new examiners?

Mr. AUBERGER. FCA has a much broader role in regulating institutions of the Farm Credit System than does the FDIC in protecting bank depositors. As an independent Federal agency charged with regulating Farm Credit System institutions and activities, our agency compares to the Comptroller of the Currency's authorities with respect to national banks. However, as a practical matter, the extent of examination of System institutions by FCA and of banks by the FDIC is comparable. Ultimately, both examination processes are designed to ensure the safety and soundness of the institution being examined.

The problem in comparing FDIC examinations with FCA examinations is the FDIC has only 1,670 of 8,385 commercial bank examiners. A more meaningful comparison would be between all commercial bank examiners and FCA examiners.

The expenses per examiner for the FDIC are $107,784 compared with $75,294 per examiner for the FCA, based on dividing total operating expenses by the total number of examiners. However, when the expenses per bank examiner of all bank regulators is compared with the expenses per FCA examiner, the costs are virtually identical—$75,134 for all bank examiners to $75,294 for FCA examiners. Furthermore, the average cost per commercial bank for all examinations by the FDIC, Federal Reserve System, Office of the Comptroller of the Currency, and State examiners is $43,986. For System institutions, the average cost is $41,885. The number of examiners per commercial bank is .59 compared to .81 FCA examiners per System institution.

ADDITIONAL EXAMINERS

Mr. WHITTEN. Your statement tells us about a significant shrinking in the System's loan volume. With this decreasing portfolio to review and examine, have you evaluated the need to have 274 examiners?

Mr. AUBERGER. We have fully evaluated our manpower requirements necessary to perform the FCA association examination program to replace the credit review programs currently delegated to the banks. FCA is required, under the Farm Credit Amendments Act of 1985, to perform an annual examination to each System institution to include an analysis of credit, collateral quality, and capitalization. The additional staffing requirement of 274 includes 240 field office positions and 34 McLean positions to cover control, training, accounting, and legal functions.

Mr. WHITTEN. What analysis did FCA do to come up with the number of 274 additional examiners? Please provide the Committee a copy of this complete analysis.

Mr. **Auberger**. The agency has performed an extensive analysis to determine personnel requirements necessary to adequately perform the examination scope in response to the 1985 Farm Credit legislation removing the examination authority delegated to the banks. Consideration was given to the existing number of bank personnel presently performing delegated examination authority, increasing number and amount of nonperforming loans and acquired property, and a growing number of financially troubled associations. There will also be a need to perform some examinations on a basis more frequent than once a year.

While loan volume is rapidly declining, the number of troubled accounts requiring more examination time are substantially increasing. Consequently, there is a growing need for more comprehensive examinations. Loan volume decline primarily represents a loss of borrowers with higher quality loans to other lenders offering more competitive interest rates and the desire of many borrowers to scale down their debt requirements.

We will provide the Committee a copy of the FCA study "Guidelines for Implementing the Expanded Examination Program." These guidelines illustrate the resource requirements necessary to implement such a program.

[The information follows:]

APPROACH TOWARD IMPLEMENTING FCA-CONDUCTED ASSOCIATION CREDIT EXAMINATION PROGRAM

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FCA ASSOCIATION CREDIT EXAMINATIONS

Executive Summary

Purpose

The purpose of this paper is to propose an approach toward organizing and implementing an FCA association credit examination program to replace those credit review programs presently delegated to banks.

Background

On September 4, 1985, Agency staff presented a report to the Federal Farm Credit Board titled "Contingency Planning on Stress in Agriculture and Its Impact on the Farm Credit System," which included a discussion of FCA's structure and role. In summary, the report stated that a statutory restructuring of FCA and its relationship with the System was needed. The objective of such a restructuring would be to establish FCA as a strong, more effective regulator of the System. The report provided a conceptual framework within which FCA would be restructured, including a recommendation that the 1971 Act be amended to provide that examinations of all System institutions be conducted by FCA under the direction of the chief examiner.

The 1971 Act currently authorizes the Federal land banks and the Federal intermediate credit banks to exercise general supervisory authority over the Federal land bank associations and production credit associations, respectively. In the course of exercising these authorities, the banks have conducted credit examinations of the respective associations. Historically, due to a shortage of resources and the desire to avoid duplication of efforts, FCA has for the most part deferred, where appropriate, to the examinations performed by banks.

Examination of associations by banks is problematic, ineffective, and inappropriate for several reasons. First, it involves the performance of a Government regulatory function by a private institution. Second, to the extent FCA does not rely on a bank's examination because of a lack of confidence and conducts its own examination, problems occur when there is a discrepancy between conclusions. Third, FCA is not aware of any precedent in the financial community in which one segment of a regulated banking industry in effect supervises another segment. Rather, the Federal or state agency charged with ensuring the viability of the entire banking system is solely responsible for the proper supervision of all institutions operating within that system. The banks and associations should be viewed as interrelated yet separate units to be examined exclusively by FCA based on different standards due to the different nature of the institutions. Finally, recent experience raises serious questions regarding the reliability of bank credit reviews in stressful conditions. Due to its involvement in the operation of an association, a bank may not be as objective as is necessary.

Incidental to the elimination of examinations by banks will be a need to hire additional FCA examiners (with some corresponding reduction in the banks' examination staff) and an approximate 3-year start-up time. During the interim, it will be necessary to follow the present practice of adopting certain association examinations conducted by the banks.

In addition, Section 5.20, which currently deals with examinations by FCA, would be amended to provide maximum flexibility in scheduling examinations by stating that FCA shall examine every System institution as often as the Governor shall deem necessary. This language parallels the National Banking Act. Examination timetables could then be established by Agency directives.

Also, the present language contained in Section 5.20 relating to "audits" by FCA and the ability of the Governor to have required "examinations" conducted by independent certified public accounts would be deleted. Since the disclosure regulations require that an audit be performed by certified public accountants, it is unnecessary and inappropriate for FCA to be conducting such audits. Independent certified public accountants do not have the capacity to conduct examinations consistent with banking agency standards. Such examination authority should rest exclusively with FCA.

Recommendations to Management

This position paper provides a discussion of various assumptions and related alternatives toward developing and implementing an FCA-conducted association credit examination program. The primary assumption is that the 1971 Act will be amended to specifically state that all examinations of all system institutions will be conducted by FCA under the direction of the deputy governor and chief examiner.

The paper recommends the course of action or approach that should be taken toward developing the FCA Association Credit Examination Program. Those recommendations and related comments are summarized below:

1. The recommended level of staffing needed to implement the program is 180 credit examiners, 24 reviewers-in-charge, 12 supervisors, and 24 clerical staff. This would result in a total of 240 additional positions, compared to approximately 275 positions presently employed by the banks to conduct the function.

2. Staffing of the Finance and Operations Division should be increased by 8 to 10 positions to adequately support the association credit examination function. This staffing increase would provide resources needed to develop needed examination policies and procedures and training of examiners.

3. The Human Resources Division, in cooperation with OES staff, should develop position descriptions, qualifications, revised rating schedules, and related criteria for these positions. This project is currently under way and should be completed by yearend.

4. The required recruiting effort should be recognized as a significant undertaking and will be phased in over a 1- to 3-year period of time. The suggested approach would be to first hire association examination supervisors and needed FOD staff. Once this staff is brought aboard, we can proceed with hiring additional examiners and clerical support staff. Under this approach, the program would be implemented district by district as the teams are fully staffed and trained.

5. A formal recruiting program should be designed to achieve hiring objectives, which would provide for (1) identification of sources of potential hirees; (2) methods of specific identification of potential hirees; (3) methods of attracting potential hirees and informing them about the job; and (4) methods of evaluating and selecting potential hirees.

6. The recruiting program should be monitored and evaluated periodically to determine whether goals, policies, and procedures for obtaining qualified personnel are being observed and achieved. When hiring individuals, guidelines should be established to stress the importance of examiner independence and objectivity. In this respect, we recommend that a limited proportion of Farm Credit System employees be hired into the FCA examiner positions.

7. The association credit examination function should be blended into the present OES organization structure of the field divisions and district teams. Placement of the new responsibilities into a separate organizational structure could jeopardize the operating effectiveness of the existing structure and cause unnecessary changes. The new function should not result in an additional number of management centers.

8. Association credit examiners should be stationed in locations where OES field offices are presently located. Consideration should, however, be given to locating certain groups of association examination staff at suboffice locations. The suboffice locations offer several advantages in reducing travel and related costs, increasing recruiting capabilities, reducing relocation costs, and resolving current space problems.

9. The recommended approach toward phasing in the program is to fully staff a unit with FCA personnel before assuming responsibilities to conduct all association examinations in a district. Under this approach, the start-up time of fully implementing the program could cover a 1- to 3-year period and would be phased in on a district-by-district basis.

10. The alternative of transferring or utilizing present bank credit reviewers to perform the FCA examination work is not

recommended unless there are pressures to immediately implement a program. Utilizing bank staff results in too many potential problems.

11. Comprehensive policies, procedures, and pro forma working papers should be developed for the examination program to ensure that Agency standards are consistently applied by all examiners. Although OES currently has examination procedures covering this area, they would require additional detail to provide overall guidance and direction to the new approach and program. The policies and procedures should be developed relatively early in the process of implementing the program.

12. Orientation and training programs should be developed and specifically tailored for association credit examiners. The responsibilities for such programs should be assigned to the Finance and Operations Division. This assignment would provide a focal point and complement the division's responsibility for developing examination procedures.

13. A formalized planning process should be developed to carry out the program. The planning process would involve goals, examination work schedules, staffing plans, and financial budgets. Quarterly status reports would be prepared to compare (1) performance with goals and examination work schedules, (2) staff utilization with planned allocations, and (3) expenditures with financial budgets.

14. The deputy governor and chief examiner should require the establishment of a quality assurance program to evaluate the operations of the examination function. The purpose of this program would be to provide reasonable assurance that the examination work conforms with established standards.

15. In connection with independence and objectivity of staff assignments, it should be the policy to periodically rotate staff, whenever practical, to ensure objectivity. To the extent possible, the same examiner(s) should not be assigned to perform an examination of the same association in 2 consecutive years.

Additional details relating to the above comments and recommendations are contained in the "Details" section of this report.

Association Credit Examinations

This section of the position paper provides detailed discussions of various alternatives available in establishing an FCA association credit examination program. Based on certain assumptions and our analysis of alternatives, we have recommended courses of action toward organizing and implementing such a program. This paper, however, stops short of presenting detailed action plans to implement the program. Those action plans will need to be developed if approval of the recommended approach is obtained.

Staffing Needs and Recruitment

The recommended staffing required to implement the program is 180 credit examiners, 24 reviewers-in-charge, 12 supervisors, and 24 clerical staff. In conjunction with recruiting this staff, policies and procedures should be established to provide the Agency reasonable assurance that those examiners hired possess the appropriate characteristics to enable them to perform effectively as examiners. The quality of the association credit examination work will ultimately depend on the independence, integrity, competence, and motivation of personnel who perform and supervise the work. Thus, OES's recruiting program will be an essential part of establishing and maintaining such quality.

An analysis of additional staff required for FCA to conduct credit examinations of all associations has been completed in connection with a study of the budget and is contained in the section titled "Budget Impact." That analysis included a review of association credit reviewers, supervisors, and support staff presently employed by the 24 Farm Credit banks in the FLB and FICB systems. Presently, the banks employ approximately 275 persons to conduct, supervise, and administratively support the credit review function. Additionally, the banks employ approximately 75 other reviewers, which include collateral appraisers and fiscal auditors.

In addition to the review of present bank staffing, an analysis was conducted to determine staffing requirements. This analysis showed that approximately 180 credit examiners (Grades GS-7 thru 12) would be required to conduct the association credit examinations. Further analysis shows that approximately 12 association examination supervisors (Grade GS-14) and 24 reviewers-in-charge (Grade GS-13) would be required to oversee the examination work. Also, approximately 24 support positions (Grades GS-3 thru 5) would be required to provide clerical assistance, word processing, and other administrative services.

The association credit examination function will also impact the workload of the Finance and Operations Division (FOD). This division is responsible for providing staff support to the field office units of OES in areas that can best be handled on a centralized basis. Such responsibilities include developing examination manuals and guidelines, developing and maintaining Agency standards for examination and supervision of System institutions, training, etc. It is projected that an additional 8 to 10 positions in FOD will be required to support the association credit examination function.

The first step toward hiring persons to fill the positions will be to establish qualifications and guidelines for evaluating potential hirees at each professional level. Currently, the Agency's Human Resource Division, in cooperation with OES staff, is developing position descriptions, qualifications, revised rating schedules, and related criteria for these positions. The next step will be to develop a recruiting plan to fill positions by locations. It will be a significant job to fully staff all positions. Therefore, it is contemplated that the recruiting to fill the positions will be phased in over a 1- to 3-year period of time. The desired approach to initiating this recruiting effort would be to first fill the association examination supervisor positions, immediately followed by filling the examiner-in-charge positions. Once these persons are brought aboard, there will have to be an extensive orientation and training program for them. In connection with this effort, a decision will have to be made up-front as to where these positions will be stationed. It is recommended that consideration be given to stationing the staff in the cities identified under the section of this paper titled "Geographical Location of Staff."

The final step will be to recruit and hire the balance of examination and support staff needed to implement the program. In conjunction with this process, the number of positions will be allocated to the various district teams. For purposes of this paper, we assumed that the additional staff would be distributed equally between the four division offices. Actual distribution of association credit examination staff and support staff will require additional workload analysis and senior management decisions. As mentioned, this will be a 1- to 3-year process to hire and train qualified staff. Under this approach, the program would be implemented district by district as the teams are fully staffed and trained. Further discussion of this is contained under the caption entitled "Phase-In of the Program."

We assume that relocation expenses for new hirees will be limited to that currently available under federal personnel and travel regulations. Under those regulations new Federal employees are only allowed minimal relocation expense. A possible approach toward hiring people would be to station them at their current residence, then as appropriate reassign them at a later date.

In conjunction with the above-described recruiting efforts, a program should be designed to achieve hiring objectives which provide for (1) identification of sources of potential hirees, (2) methods of contact with potential hirees, (3) methods of specific identification of potential hirees, (4) methods of attracting potential hirees and informing them about the job, and (5) methods of evaluating and selecting potential hirees for extension of employment offers. It is recommended that a quality brochure be developed as a means of informing applicants about the job. The recruiting program should be monitored and evaluated periodically to determine whether goals, policies, and procedures for obtaining qualified personnel are being observed and achieved.

Guidelines should be established and followed when hiring individuals in certain situations, such as hiring Farm Credit System employees. We recommend that a limited proportion of Farm Credit System employees be hired into the FCA examiner positions. It is preferable that Farm Credit System employees not be hired to examine in a district in which they formerly were employed; however, there could be exceptions to this condition. Applicants should not be considered for employment if they have any business relationship with a Farm Credit System institution (i.e. loans, bonds, relatives employed, etc). Independence of the FCA association credit examination program will be of utmost importance. Even the appearance of the lack of independence and objectivity of staff by outside parties could jeopardize the credibility of the program. Hiring excessive numbers of System personnel could be presumed to impair independence and objectivity.

Budget Impact

(To be inserted later.)

Organizational Impact

The association credit examination function should be blended into the present OES organizational structure of the field divisions and district teams. The present organizational alignment and operating pattern was implemented in mid-1984 for the purpose of reducing the level of internal coordination and planning required. The most significant single aspect of the alignment was the simplification of organizational and managerial structure. Under the structure, the four field divisions were established, each composed of three district teams headed by an assistant director. As a result, the preponderance of the Agency's examination/supervisory activities within an individual district are now the responsibility of a single district team. The associate deputy governor-field operations is responsible for directing the activities in the four field divisions through the division directors. This permits effective central direction to be provided, helping to ensure consistency in approach and standards throughout OES field operations.

The present OES structure has proved effective in carrying out day-to-day examination and supervisory responsibilities. Therefore, it is logical to blend the expanded responsibilities into the existing structure rather than creating a separate structure. In fact, placement of the association credit examination responsibilities into a separate organizational structure could jeopardize the effectiveness of the existing structure and could necessitate substantial operating changes. Such changes could create an unnecessary adverse impact on employee morale and OES operations in general.

An alternative to blending the association credit responsibilities into the current OES "team" structure would be to pool the new examination staff at the divisional level. Or, to take this approach a step further, examiners could be pooled at one or two geographical locations. The pooling concept sounds quick and easy, and it could possibly allow greater flexibility in utilizing staff resources when and wherever needed. This approach might also provide for more effective utilization of examiners in the 2- to 3-year transition phase of hiring a full complement of examiners. The pooling approach, however, is not recommended because of undesirable characteristics mentioned in the preceding paragraph. In addition the approach could result in (1) greater changes in existing organizational structure; (2) additional levels of management and number of management centers; (3) coordination and communication problems with existing examination/supervision functions; (4) substantial travel time and larger travel costs compared to other options; and (5) disadvantages in recruiting personnel to work under such an operating environment.

Under the recommended approach of blending the function into the present structure, a staff of association credit examiners would be assigned to a unit in each of the 12 district teams. The unit would be headed by an association examination supervisor who would report directly to the assistant director. The credit examiners would be assigned to teams, each headed by an examiner-in-charge who would report to the association examination supervisor. This structure would provide for straight-line supervision and accountability, rather than a matrix management system that might exist in a pooled structure. The span of supervision would normally be one examiner-in-charge to 5-7 credit examiners.

Under this approach, the existing staff of examiner/supervisors would remain a separate unit under the direction of the assistant director. As separate units, each would be able to concentrate on specifically assigned duties. Upon full implementation of the association credit examination function, there could be some flexibility to balance staff capabilities and reassign staff between the two units. However, basically the two units would be kept intact to maintain acceptable levels of expertise in each unit.

In the past, OES has operated with insufficient resources. Any existing examiner/supervisor resources freed up because of the FCA conducted association examinations would be shifted to other high-risk areas. This would also provide an opportunity to provide a better balance of staff specialties (i.e., credit, finance, fiscal, EDP, etc.).

The association credit examination function may have an impact on the other offices within the Agency which are not discussed in this paper.

Impact on FICBs and FLBs

Currently, the banks have approximately 275 persons to conduct, supervise, and administratively support the credit review function. The banks employ an additional 75 persons as collateral appraisers and fiscal auditors. It is reasonable to assume that if FCA conducts association examinations, some reduction in bank staff would occur. It is unlikely that bank expenses would be reduced in direct proportion to the increases in FCA expense. We have not attempted to estimate this budgetary impact because not all banks will react in the same fashion.

Regardless of the budgetary impact, the most profound impact of this change on the banks would be the change in their relationship with the associations. Under the present program, banks (FICBs and FLBs) have primary responsibility for examining and supervising the respective associations. If the staff recommendations are accepted, the following changes in relationship would occur:

1. FCA would be responsible for examining and supervising the associations for compliance with good banking practices, FCA Regulations, and applicable Federal laws. Unless deficiencies detected are the result of districtwide policies or procedures, FCA supervisory actions would be directly between FCA and the associations. The banks would receive copies of the FCA examination reports and be informed of any supervisory actions.

2. The FICBs would maintain a debtor/creditor relationship with the associations and would be responsible for enforcing the terms of their loan agreement. The FICBs would adopt such districtwide standards as they deemed appropriate under the law to maintain their debtor/creditor relationship. The banks would maintain their present leadership responsibility for such areas as program development and implementation, training, business development, and data processing. The relationship between the FLBs/FLBAs would be that of agent (FLBA) and principle (FLB). The FLBs would develop districtwide standards as required by law and would exercise the same leadership responsibilities as cited above for the FICBs.

Geographical Location of Staff

Association credit examination staff should be stationed in locations where the OES field offices are presently located (McLean, St. Louis, and Spokane). Consideration should also be given to locating certain units of association credit examination staff in suboffices. Those suboffice sites would generally be located in the cities where district banks are presently located, or where airline service to a district provides convenient access to the associations. The recommended location sites, including possible suboffice sites, are detailed below:

Team	Duty Station
Springfield	McLean*
Baltimore	McLean*
Columbia	Columbia or Atlanta
Louisville	Louisville or Memphis
Jackson	Jackson or Memphis

St. Louis	St. Louis*
St. Paul	Bloomington*
Omaha	Omaha
Wichita	Wichita or Oklahoma City
Texas	Austin or Oklahoma City
Sacramento	Sacramento
Spokane	Spokane*

* Indicates existing FCA offices

Several options or alternatives exist as to location of the association examination staff. In analyzing the various options, consideration was given to recruiting capabilities, travel time and costs, availability of office space and related costs, management and supervisory control, and general effectiveness of operations. Also, heavy consideration was given to the desirability of blending the new function into the existing OES district team organizational structure and approach toward examination/supervision.

Some of the advantages and disadvantages of locating staff in suboffices are as follows:

Advantages

1. Less examination time lost to travel.
2. Lower percentage of travel for examiners.
3. Greater recruiting capability and possibly less relocation costs.

Disadvantages

1. Complexities in exercising managerial direction and control because of geographical distance between division offices and suboffices.
2. More office facilities to manage.
3. Expanded communications network and related difficulties.

The availability of office space at the present FCA offices (McLean, St. Louis, and Spokane) is presently limited. With some adjustments, however, space may be available to house additional staff for the Springfield and Baltimore Districts in McLean and to house the staff needed for the Spokane and St. Louis Districts in the existing office facilities. Taking this factor into consideration raises the question as to the feasibility of locating some of the staff in other cities. It is very probable that securing office space in other cities would be easier, quicker, and less expensive than trying to secure additional space at the present office locations. In addition, it would be less disruptive to existing operations (i.e., time in securing additional space, remodeling, etc.).

In studying the pros and cons of locating staff entirely in division offices versus utilizing suboffices, a material factor which has to be taken into consideration is travel time by the staff. To locate all examiners at the present FCA office location would result in a substantial amount of examiner travel time, lost examination time, and excessive travel costs. In addition, it would be difficult to hire and retain examiners working under these travel conditions. For example, it could be difficult to attract examiners from other regulatory agencies who do not always work under such travel conditions.

We should recognize, however, that the current efforts toward establishing districtwide associations could have some impact on the conclusions reached in the preceding paragraph. The development of districtwide associations located in bank cities opens up the potential for reduction in travel time. However, those districts will continue to have a number of service or administrative centers located throughout the district, which will also have branches. Examiners will undoubtedly need to travel to these locations. As a result, the potential impact on travel requirements is difficult to measure at this point.

Another important consideration is FCA's capability to recruit examiners. In addition to the travel issue, it is sometimes more difficult to recruit personnel for such locations as McLean and St. Louis. Many people do not want to relocate a great distance and, in some cases, dislike the bigger cities or the higher living costs. An advantage to the suboffice approach is that the Agency could increase its recruiting capability. We could attract a wider range of persons because of their preference to geographical locations, cost of living in certain locations, etc. It is probable that the length of time needed to implement the program could be shortened because of increased recruiting capability. Also, it is probable that the suboffice approach would lower the Agency's expenses in relocating people.

The disadvantages that might be associated with establishing suboffices would not be a detriment, if properly managed. Division management would have to employ management techniques to ensure that sufficient direction and control are provided over suboffice operations. The potential problems associated with having examiners located in close proximity to district operations would have to be carefully managed. In this respect, FCA examination staff would not be housed in district bank buildings. Instead, the staff would be independently housed at other sites in district bank cities. It should be carefully noted that this is not a return to the old resident examiner concept or approach.

Although this paper recommends that consideration be given to locating certain groups of association credit examiners in suboffices, we do not recommend relocating existing examination staff. Some persons may take the position that all of the staff on a district team should be located in the same office. This would result in unnecessary movement of staff and additional relocation costs. There would be a substantial difference in the work and travel requirements between existing examination/supervisory staff and the new association examination staff. Although the existing staff spends some time examining associations, the majority of their time is spent in the banks or the division office whereas the new association examiners would spend the majority of their time in associations. Locating these examiners in suboffice locations gets them geographically closer to their work and results in less travel time.

Phase-In of the Program

The recommended approach is to fully staff an association credit examination unit with FCA examiners before assuming responsibilities to conduct examinations of all associations in a district. There are several assumptions and alternatives which were considered. The main assumptions are as follows:

1. The existing organizational structure and responsibilities will remain basically in contact.
2. The process toward implementing the association credit examination program will commence in 1985.
3. FCA would require approximately 180 association credit examiners, 36 supervisors, and 24 support staff to carry out the program.
4. Implementation of the program would be phased in over a 1- to 3-year period.
5. Congress and the administration will expect FCA to conduct independent and reliable credit examinations.
6. Association credit examiners will be FCA employees.
7. Credit reviews of associations by many banks is ineffective and inappropriate.

One alternative that has been discussed is to utilize present bank credit reviewers to perform the credit examination work under the direction of OES staff. Under this approach, the Agency would hire and/or reassign examiners-in-charge to supervise bank-employed reviewers. The bank reviewer assistance would be phased out as FCA hires more reviewers. The advantages and disadvantages of this approach are outlined as follows:

Advantages

1. Allows gradual attrition of bank reviewers.
2. Allows gradual training of FCA examiners.
3. Begins FCA-supervised reviews almost immediately.

Disadvantages

1. Clouds the relationship between the regulator (FCA) and the financial institutions being examined.

2. Difficult to manage because of bank influence on bank employees. Also, bank employees may not fully cooperate.

3. Questionable legality in regard to using outside parties to conduct FCA examination work.

4. Jeopardizes examiner independence and objectivity in producing examination product.

5. Outside parties, i.e., the administration and Congress, could criticize this approach.

6. Poor quality of bank reviewers in some districts could result in poor quality product.

The above-described approach is not recommended, unless there are pressures to immediately implement a fully operational program.

Another alternative would be to provide for an immediate transfer of the bank review function. Under this alternative, the Agency would hire all bank reviewers by means of team appointments or excepted service appointments. Over a 3-year period, we could cull out unwanted reviewers and replace with new hires while transferring the wanted reviewers to new district assignments. This alternative has the same undesirable characteristics, if not more, of the alternative discussed above and is not recommended.

Under the recommended approach, we would first hire 12 association examination supervisors and 24 examiners-in-charge assigning them to assistant directors. These persons could probably be in place by the end of 1985 and early 1986. We would then begin recruiting association credit examiners to staff the district teams. It has to be recognized that hiring a full staff of association examiners and support staff will be a massive undertaking. Although we assumed that the start-up time would take 1 to 3 years under this approach, it is probable that we could have the program fully operational in several districts within 12 to 18 months.

During the transition period in which FCA is hiring association credit examiners, there could be a gradual takeover of the banks' credit review function. As FCA staff is hired for a district team, they will begin performing credit examinations of select associations. The number of associations examined would gradually increase as the size and proficiency of the FCA staff increases. We would notify the banks which associations we will examine. This approach would allow an orderly process for hiring and training FCA examiners. It would also allow the banks to make an orderly transition out of the credit review function.

Policies and Procedures

Comprehensive policies and procedures should be developed for the FCA association credit examination program. Considering the size of staff involved and breadth of the association credit examination function, formal and comprehensive policies and examination procedures are essential. Such policies and procedures will be needed to insure that Agency standards are consistently applied by all examiners and operating units within OES.

The policies and procedures should cover the overall management and direction of the association credit examination program. They should address standards to ensure (1) the work is adequately planned and supervised; (2) proper study and evaluation through examination procedures; (3) sufficient competent evidential matter (workpapers) is obtained; and (4) consistent and informative reports. The standards developed in these policies and procedures would be directly related to a quality control program which should be developed for the function.

In the area of planning and supervising the examination work, specific procedures should be developed for (1) scheduling and assignment of staff; (2) obtaining background information about the association to be examined; (3) determining areas for examination emphasis; (4) determining examination scope and procedures to be employed; (5) writing examination activity plans; and (6) supervision, review and approval of work.

Examination procedures, including the testing and sampling techniques, should be developed for (1) classification of loans and loan-related assets; (2) evaluation of credit administration; (3) appraisal and inspection of collateral; (4) analysis and verification of nonperforming loans; (5) analysis of the allowance for losses; (6) evaluation of management; (7) establishing concern levels of associations; (8) evaluation of compliance with regulations; and (9) evaluation of other areas of association operations as appropriate. We have assumed that the association credit examination function will be carried out utilizing credit standards and loan classification systems similar to those presently existing. However, there have been recent discussions regarding the adequacy of the present loan classification system (i.e., whether it conforms to those classification systems utlilized by other regulatory agencies, etc). We suggest that those issues be studied further in conjunction with developing procedures for the association credit examination program.

Policy and procedures for reporting the results of the examination work should include (1) format and content of examination reports; (2) responsibilities and guidelines for developing reports; (3) reviewing and signing of reports; (4) processing and distributing reports; and (5) presenting reports to association boards and management. It is suggested that reports contain recommendations for improvements and corrective action. Therefore, a procedure should also be developed for following up to ascertain that appropriate action is taken on reported examination findings.

Under the proposed organizational structure, the examiners-in-charge will be responsible for preparing the report of examination. The association credit examination-manager will be responsible for reviewing the report and supporting working papers. This person will determine that evidence of work performed and conclusions contained in the working papers support the report. Also, this person will determine that the report conforms to the Agency's policy and standards prior to providing it to the assistant director. The assistant directors will be responsible for authenticating and signing the reports.

In addition to the above matters, the Agency will need to develop pro forma working papers for the credit examination appropriate to the increased size of staff to provide consistency in analysis and documentation of work performed. Also, processes and procedures need to be developed to obtain various computerized or other information that would be needed to carry out the examination (i.e., loan listing sheets, delinquency reports, nonperforming loan reports, loan-related asset reports, and current financial statements).

The Finance and Operations Division should be assigned the responsibility to develop and maintain written policies and examination procedures for the association examination program. These policies and procedures would be approved by the Examination and Supervision Standards Board. The policies and procedures would have to be developed relatively early in the process of implementing the program.

Professional Development

Orientation and training programs should be developed to provide the Agency with reasonable assurance that association credit examiners will have the knowledge required to enable them to fulfill responsibilities. Considering the substantial number of new employees who will be employed, it will be extremely important to establish comprehensive training and orientation programs. A plan should be devised in the near future for the development of such programs for new association credit examiners. The programs would need to be scheduled on a frequent basis during the transition period of hiring new employees and implementing the program. For this reason, it is suggested that the training be developed by FCA staff and put on by in- house instructors. The responsibility for developing training and orientation programs should be assigned to a unit in the Finance and Operations Division. This assignment would provide a central focal point and complement the division's responsibility for developing examination procedures.

Management of Function

The deputy governor and chief examiner would be responsible for properly managing FCA's association credit examination program, so that (1) credit examination work fulfills the general purposes and responsibilities approved by the Governor and accepted by the Federal Farm Credit Board; (2) resources of the association credit examination function are efficiently and effectively employed; and (3) credit examination work conforms to established standards. Those responsibilities would be carried out through subordinate staff including the associate deputy governor-field operations, field division directors, and assistant division directors. The assistant deputy governor-finance and operations would be responsible for providing professional staff support to the field operations staff to carry out the program.

The deputy governor and chief examiner would establish plans to carry out the PCA association credit examination program. The planning process would involve (1) goals, (2) examination work schedules, and (3) staffing plans and financial budgets.

Examination work schedules would include (1) what associations are to be examined, (2) when they will be examined, and (3) estimated time required. Matters to be considered in establishing association credit examination work schedule priorities should include (1) the date and results of the last examination, (2) credit risk and financial exposure, (3) potential loss and risk, (4) major changes in operations, programs, systems, and controls, and (5) changes to and capabilities of the examination staff. The work schedule should be sufficiently flexible to cover unanticipated demands on the association credit examination function. Staffing plans and financial budgets, including the number of examiners and the knowledge, skills, and disciplines required to perform their work, should be determined from association credit examination schedules.

Each fiscal year, the assistant directors would furnish the examination work schedules, staffing plans, and financial budgets to the field division directors for approval. Those documents would be forwarded to the associate deputy governor for approval and consolidation in an overall master control document. The associate deputy governor would then be responsible for adjustments in staffing, etc., between divisions. The final master control document will be approved by the deputy governor and chief examiner. Status reports would be prepared on a quarterly basis from the assistant directors through the same chain of management as described before. Those reports should compare (1) performance with the goals and examination work schedules, (2) staff utilization with planned allocations, and (3) expenditures with financial budgets. The reports should explain the reasons for major variances and show any action taken or needed.

The deputy governor and chief examiner would establish a program for selecting and developing the staff resources to carry out the association credit examination function. The program would provide for (1) developing written job descriptions and performance standards for each level of the examination staff, (2) selecting qualified and competent individuals, (3) training and providing staff development opportunities for the examination staff, and (4) appraising each examiner's performance at least annually.

The associate deputy governor-field operations, through the field division directors, would be responsible for coordinating examination efforts to ensure consistency, adequate examination coverage, and minimize duplicate efforts. Coordination of examination efforts would include (1) periodic meetings to discuss matters of mutual interest, (2) providing access to examination reports and workpapers between divisions, (3) exchange of examination reports, and (4) common understanding of examination techniques, methods, and terminology. The associate deputy governor would closely coordinate efforts with the assistant deputy governor-finance and operations.

The deputy governor and chief examiner should require the establishment of a quality assurance program to evaluate the operations of the examination function at each level of management and supervision. The quality assurance should include the following elements:

- Independence and objectivity of staff.
- Recruitment and hiring.
- Assignment of staff and supervisors.
- Professional proficiency and staff development.
- Planning of work and performance thereof.

The purpose of this program would be to provide reasonable assurance that examination work conforms with established standards.

In connection with independence and objectivity of staff assignments, it should be the policy of OES to periodically rotate staff members, whenever practical, to ensure objectivity. To the extent possible, the same examiners should not be assigned to perform an examination of the same association in 2 consecutive years.

Internal operations reviews should be performed periodically to appraise the quality of the examination work performed at the division and district team levels. The deputy governor and chief examiner would schedule such reviews and select qualified staff members to participate in the reviews. Such reviews should be completed at least once every 3 years in the various units. On completion of the reviews, a formal, written report should be issued. The report should express an opinion as to the unit's compliance with Agency examination standards and, as appropriate, should include recommendations for improvement.

Mr. **Whitten**. We note that of the new locations for FCA field offices, some of them are not located within the district they will serve. Since examiner positions are travel intensive, it would seem more practical to locate within the district served and cut down on travel expenses. What rationale was used to determine the location of the new field offices? Please list each office and the number of examiners to be located at each office, and the districts that field offices will serve.

Mr. **Auberger**. The Jackson field office is the only office located outside of the district served. Consideration was given to Jackson, Mississippi, and Memphis, Tennessee, at the time Atlanta, Georgia, was selected for the field office location of the Jackson District. The Atlanta site was selected over the other two locations because of better airline services and the opportunity to save cost by sharing space with FCA field office personnel assigned to the Columbia District.

[Additional information follows:]

FCA field office location	Districts served	Number of examiners
Albany, NY	Springfield	13
McLean, VA	Baltimore	12
Atlanta, GA	Columbia	20
	Jackson	19
Louisville, KY	Louisville	23
St. Louis, MO	St. Louis	22
Bloomington, MN	St. Paul	27
Omaha, NE	Omaha	22
Oklahoma City, OK	Wichita	23
Dallas, TX	Texas	19
Sacramento, CA	Sacramento	22
Spokane, WA	Spokane	18
Total		*240

*Includes two clerical personnel per district.

CAPITAL CORPORATION

Mr. **Whitten**. Why was Kansas City chosen as the site for the Capital Corporation?

Mr. **Auberger**. There were two basic reasons. First, a central location in the Midwest will help the Capital Corporation, because of the volume of problem loans in the Omaha and Wichita Farm Credit Districts. It is very likely that many of the loans purchased by the Capital Corporation will be from banks and associations in the Midwest. Second, a location separate from the site of other System banks and the Farm Credit Corporation of America was chosen to provide the arm's-length relationship between the Capital Corporation and the Farm Credit System institutions intended by Congress when the Capital Corporation was authorized under the Farm Credit Amendments Act of 1985.

CAPITAL PRESERVATION

Mr. **Whitten**. Please provide a copy of Capital Directive No. 1 for the record.

[The information follows:]

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

FCA
FARM CREDIT ADMINISTRATION

February 14, 1986

Capital Directive No. 1

To: The Chief Executive Officer
Farm Credit Banks and Associations

From: Donald E. Wilkinson Donald E Wilkinson
Acting Chairman

Subject: Capital Adequacy

The Farm Credit Amendments Act of 1985 ("Amendments") causes the chartering of a Farm Credit System Capital Corporation ("Capital Corporation") which will be empowered to marshal the resources of the Farm Credit System ("System") institutions to help the System's current financial difficulties. A key requirement of the Amendments is that the System fully utilize its own financial resources to aid its troubled institutions before outside financial assistance can be requested.

The Farm Credit Administration ("FCA") is drafting regulations that will establish capital adequacy and configuration standards for System banks and associations, as well as assessment and financial assistance standards applicable to operations of the Capital Corporation. You are hereby notified that until those regulations are issued and implemented and this directive is rescinded, the FCA considers the current capital of your bank or association to be at the level of minimum adequacy under existing circumstances. Accordingly, no System bank or association shall take any action outside the normal course of business that has the effect of dissipating the institution's existing capital resources, decreasing its revenues, or otherwise diminishing its capacity to provide financial assistance to other System institutions. Each System bank and association, pursuant to Section 4.3 of the Farm Credit Act of 1971, as amended, is hereby directed to refrain from any of the following actions:

1. Paying any dividend.

2. In the case of an FLB, FLBA, or PCA, making any patronage distributions and, in the case of an FICB, making any cash patronage distribution to a PCA. Any distribution of FICB net earnings should be in the normal manner. No BC net earnings can be distributed prior to yearend.

3. In the case of a BC, changing equity revolvement policies or capitalization levels under loan-based capital programs that have the effect of materially reducing the bank's equity levels.

4. Repurchasing any individual, consolidated, or Systemwide unmatured debt instruments.

5. Making any extraordinary operating or capital expenditures that are within the control of management or the Board of Directors and are individually or cumulatively in excess of $250,000.

6. Making any major change that increases the cost of employee benefit and pension plans.

7. Making any major changes in depreciation or other accounting policies.

8. Reducing loan fees or member stock requirements.

9. Charging an interest rate by any PCA that is less than the rate charged by the FICB to the PCA.

10. Paying an interest rate on member funds held by an FLB in an amount exceeding the member's loan rate.

11. Selling bank or association assets outside the normal course of business.

12. Redeeming any capital stock other than voting stock.

The FCA will consider and may approve requests for exceptions to the above prohibitions where the institution can document the unusual circumstances that warrant the request and provide a well-substantiated financial impact analysis.

The prior approval authority to change interest rates and certain other financial transactions that had been approved under Section 5215 of current regulations is hereby rescinded for all banks. Annual interest rate approval may be granted provided a bank is projecting and adhering to a return on assets of at least 0.75 percent. All requests for interest rate changes by banks must be fully documented and include:

1. Projections of the impact of the proposed change on the bank's earnings.

2. The key assumptions on which the projections are based, including the provision of financial assistance to other System institutions.

3. An analysis of the bank's current lending rate in relation to major competition for bank borrowers, and documentation to support any claims that the current loan rate is causing a long-term deterioration in competitive position.

The FCA will evaluate requests for an interest rate change in light of a particular district's financial situation as indicated in the documentation submitted and other information available to the Agency. The request will also be considered for its impact on the System's overall financial position.

We remind all System banks that the FCA's prior approval is required for the provision of any form of financial assistance from a bank to its related associations or to other System banks, including, but not limited to, cash infusion, stock purchase, special compensation, or debt forgiveness.

Banks and associations are also reminded that all provisions to the allowance for losses account are to be in compliance with generally accepted accounting principles. These provisions will be reviewed by the FCA examiners during the course of their regular examination activities.

This directive will be enforced pursuant to Section 5.31 of the Act.

Copy to: Federal Farm Credit Banks Funding Corporation
Farm Credit Leasing Services Corporation
Farm Credit Corporation of America
Farm Credit System Capital Corporation
The Farm Credit Council

CAPITAL DIRECTIVE NO. 1

Mr. **Whitten**. You state that the freeze on financial resources mandated by that directive is only a "temporary measure until the Act is fully implemented." When will this be?

Mr. **Auberger**. Capital Directive No. 1 is intended to remain in effect until such time as the Capital Corporation is operational and FCA's Capital Adequacy Regulations are published as final regulations. Even then, it may be necessary to retain some of the requirements contained in the Directive until there is no longer a need for institutions to come to each other's assistance. Modifications to this Directive will be made as circumstances warrant.

TREASURY CERTIFICATION FOR FEDERAL ASSISTANCE

Mr. **Whitten**. What systems are now in place or planned to enable the Farm Credit Administration to make the Certification required before the Secretary of the Treasury can decide whether or not to provide financial assistance as authorized in the Farm Credit Act Amendments of 1985?

Mr. **Auberger**. The Farm Credit Administration has recently finished an updated financial projection for each System bank. This was accomplished by writing a new computer financial simulation model. The purpose of this new model is to project the financial results of each district in order to properly assess the financial assistance needed in each district, to evaluate the total internal System resources available to meet these needs, and to compare these resources with anticipated needs. FCA will update its estimates whenever meaningful financial results deviations occur. This process will serve as the foundation for FCA to make a recommendation to the Treasury Department and to Congress.

SYSTEM INCOME

Mr. **Whitten**. What efforts are being made to assure that the healthier institutions are charging rates sufficient to generate the income needed to assist the weaker institutions, at the same time being competitive?

Mr. **Auberger**. On February 14, Farm Credit Administration issued a capital directive to all Farm Credit System institutions, notifying them that no System bank or association may take any action outside the normal course of business that has the effect of dissipating the institution's existing capital resources, decreasing its revenues, or otherwise diminishing its capacity to provide financial assistance to other System institutions.

Because of FCA's concern with the financial condition of the System as a whole, and because of our encouraging System institutions to develop a more market-oriented and efficient loan-pricing philosophy, FCA has been reluctant to approve requests for across-the-board rate reductions. FCA did not approve these requests by the Wichita, Baltimore, and Columbia districts. These districts have subsequently developed differential rate programs, which FCA has approved. Rate reductions, as well as differential programs, were approved for the Omaha and Louisville districts.

Other districts that have modified their interest rate programs include Springfield, St. Louis, and St. Paul.

We will continue to review each district's proposal for changes to its interest rate programs on a case-by-case basis. Each proposal must include an analysis of the existing competitive environment, adequate projections of the impact of the proposed changes on the bank's earnings, and the economic assumptions on which the proposal is based.

CAPITAL CORPORATION

Mr. WHITTEN. What is the current status of the Capital Corporation?

Mr. AUBERGER. Final regulations have been published, a Charter has been issued, and directors have been selected. The board of the Capital Corporation met in Kansas City on April 11, 1986, and selected Gene L. Swackhamer as chairman. Ben L. Hauenstein, president of the Farm Credit System Capital Corporation that is being replaced by the Capital Corporation established pursuant to the Farm Credit Amendments Act of 1985, has been asked to fill the position of president of the Capital Corporation on a temporary basis.

As you know the Capital Corporation will be located in Kansas City but is presently operating in offices in Wichita. Inasmuch as a capital corporation existed in the System before the passage of the 1985 amendments, the new Capital Corporation is taking over an existing operation under new regulations that conform its actions to the 1985 amendments and is under the control of a board of directors independent of the Farm Credit System.

Mr. WHITTEN. How will the System determine which of the institutions will sell loans to the Capital Corporation?

Mr. AUBERGER. In the 1985 Amendments, Congress wisely permitted any System institution, whether financially strong or in need of direct financial assistance from other System institutions, to sell eligible assets to the Capital Corporation. Because a principal function of the Capital Corporation is to pool the System's distressed assets and centralize their administration, its ability to purchase loans from any offering System institution is essential to the efficient operation of the Capital Corporation and the more rapid recovery and rebuilding of the entire System. However, the decision whether to sell loans to the Capital Corporation is necessarily a matter for the management of individual institutions to decide.

Mr. WHITTEN. How will the purchase price be determined?

Mr. AUBERGER. In our regulations, we have defined "fair market value" as having the same meaning as the term is defined under generally accepted accounting principles, where value is determined on the basis of facts that would be relevant to a willing purchaser and a willing seller, both of whom are knowledgeable that the assets conveyed will be converted to cash over some period of time, during which the holder will incur the usual expenses associated with administration, maintenance, disposition, and sale on liquidation. In other words, both the buyer—the Capital Corporation— and the seller—the selling institution—will normally consider in their negotiations all relevant information pertaining to its market values.

It is important to emphasize that it is intended that the actual purchase price of assets will be arrived at through negoiations between the Capital Corporation and System institutions selling assets to the Capital Corporation. The 1985 Amendments wisely left it to the institutions to determine whether they wished to sell assets to the Corporation. If the Capital Corporation were to offer less than fair market value for an asset, the offering institution would have no incentive to accept the offer. The institution would determine that it would benefit more by holding the asset within its portfolio and would decline the offer. In the special case where an institution is also eligible for direct financial assistance but is required to sell its distressed assets as a precondition to receiving assistance, asset value would again be arrived at through negotiation, notwithstanding that the selling institution may be less concerned with the negotiated purchase price than with the amount of financial assistance that will be received.

We see "fair market value" as representing a price that neither benefits the pruchaser unduly nor subsidizes the seller. It is our view that by considering all relevant information, the parties will negotiate values that both agree are fair, or the sale will not be consummated. The nature of the operation and function of the Capital Corporation within the System will cause assets to be fairly valued.

EXPANSION OF CREDIT EXAMINATION ACTIVITIES

Mr. **Whitten**. How many of the new Credit Examination Field Offices have been established and staffed?

Mr. **Auberger**. Seven examination field offices are being established and staffed at present. An eighth office is being considered to house the examination staff for the Baltimore District, depending on space availability at the FCA building in McLean, Virginia. City locations have been selected, and we are reviewing competitive lease proposals. An extensive recruitment campaign is also underway. Our schedule for completing the staffing of these new offices is July 31, with some offices opening earlier.

Mr. **Whitten**. What is the schedule for completing establishment of these offices?

[The information follows:]

Oklahoma City, OK	May 9, 1986
Omaha, NE	May 30, 1986
Louisville, KY	July 3, 1986
Sacramento, CA	July 18, 1986
Atlanta, GA (Marietta)	July 11, 1986
Dallas, TX (Irving)	July 18, 1986
Albany/Troy, NY	July 31, 1986

If a separate examination office is needed for the Second Farm Credit District (Baltimore), July 31, 1986, is our estimated date for opening that office.

PROVISION FOR LOAN LOSSES

Mr. **Whitten**. Please provide for the record a table showing the most recent information for combined allowances for loan losses and the write-offs for the Federal Land Banks, Federal Intermediate Credit Banks, Production Credit Associations, and Banks for Cooperatives.

Mr. AUBERGER. Mr. Chairman, I will provide the information for the record. However, it should be noted that provisions for loan losses are predicated on potential losses and may vary significantly from chargeoffs in any one year.

[The information follows:]

ALLOWANCES FOR LOAN LOSSES AND CHARGEOFFS FOR 1985

[Dollar amounts in millions]

	Allowance for	
	Loan losses	Net chargeoffs
Federal land banks	$2,178.3	$460.3
Federal intermediate credit banks	144.9	38.6
Production credit associations	684.0	479.6
Banks for cooperatives	131.9	13.8

OPERATING LOSSES

Mr. WHITTEN. Please provide for the record a table showing the most recent combined operating losses for net income for the Federal Land Banks, Production Credit Associations, and Banks for Cooperatives.

Mr. AUBERGER. We will provide you with figures showing net income or net loss for the year ended December 31, 1985.

[The information follows:]

Net income (loss) for 1985

[Dollar amounts in millions]

Federal land banks	$ (2,077.0)
Federal intermediate credit banks	(89.3)
Production credit associations	(678.3)
Banks for cooperatives	66.3

Mr. WHITTEN. Please provide the same information for the past five years.

[The information follows:]

NET INCOME (LOSS), 1981 THROUGH 1985

[Dollar amounts in millions]

	1981	1982	1983	1984	1985
Federal land banks	$435.5	$597.6	$281.6	$185.2	$ (2,077.0)
Federal intermediate credit banks	250.6	241.5	146.5	123.3	(89.3)
Production credit associations	308.6	260.9	77.2	(10.3)	(678.3)
Banks for cooperatives	181.4	154.8	114.6	133.2	66.3

NONPERFORMING LOANS

Mr. WHITTEN. Please provide for the record a table showing the most recent combined information on the dollar value of non-performing loans and the total as a percentage of total loan portfolio for the Federal Land Banks, Federal Intermediate Credit Banks, Production Credit Associations, and Banks for Cooperatives.

[The information follows:]

NONPERFORMING LOANS AS OF DECEMBER 31, 1985

[Dollar amounts in millions]

	Amount outstanding	Percent of total outstanding
Federal land banks	$7,293.1	15.4
Federal intermediate credit banks	5,164.9	37.0
Production credit associations	2,205.2	16.0
Banks for cooperatives	472.0	5.8

Mr. **Whitten**. Please provide the same information for the past five years.

Mr. **Auberger**. We will provide your committee with that information on 1984 and 1985. FCA did not collect data on nonperforming loans prior to 1984.

[The information follows:]

NONPERFORMING LOANS, 1984, 1985

[Dollar amounts in millions]

	1984	1985
Federal land banks	$3,985.8	$7,293.1
Federal intermediate credit banks	2,166.1	5,164.9
Production credit associations	2,095.9	2,205.2
Banks for cooperatives	537.8	472.0
Federal land banks (percent)	7.6	15.4
Federal intermediate credit banks (percent)	14.2	37.0
Production credit associations (percent)	11.4	16.0
Banks for cooperatives (percent)	6.0	5.8

NET WORTH

Mr. **Whitten**. Please provide for the record a table showing the most recent combined information regarding the net worth of the Federal Land Banks, Federal Intermediate Credit Banks, Production Credit Associations, and Banks for Cooperatives.

[The information follows:]

Farm Credit System net worth, December 31, 1985

[Dollar amounts in millions]

Federal land banks	$3,692.9
Federal intermediate credit banks	[1]1,867.0
Production credit associations	[1]2,826.5
Banks for cooperatives	1,166.2

[1] Intercompany transactions between FICB/PCA's of approximately $1.7 billion are duplicated.

Mr. **Whitten**. Please provide the same information for the past five years.

[The information follows:]

NET WORTH, 1981 THROUGH 1985

[Dollars amounts in millions]

	1981	1982	1983	1984	1985
Federal land banks	$4,710.9	$5,532.0	$5,870.1	$6,037.1	$3,692.9
Federal intermediate credit banks[1]	1,627.0	1,860.8	1,930.0	1,998.6	1,867.0
Production credit associations[1]	3,916.3	4,119.2	4,080.9	3,874.9	2,826.5
Banks for cooperatives	1,281.1	1,184.7	1,169.1	1,206.6	1,166.2

[1] Intercompany transactions between FICB/PCA's are duplicated.

INCOME AND EXPENSES

Mr. WHITTEN. Please provide for the record a table showing the most recent combined information for total interest income, total interest expense, net interest income, provision for losses, other income and expenses, and net income for the Federal Land Banks, Federal Intermediate Credit Banks, Production Credit Associations, and Banks for Cooperatives.

[The information follows:]

SUMMARY OF SPECIFIED DATA ON FARM CREDIT SYSTEM AS OF DECEMBER 31, 1985

[Dollar amounts in millions]

	Federal land banks	Federal intermediate credit banks	Production credit associations	Banks for cooperatives
Total interest income	$5,897.1	$1,798.2	$1,912.0	$993.0
Total interest expense	(5,477.6)	(1,509.4)	(1,617.6)	(825.4)
Net interest income	419.5	288.8	294.4	167.6
Provision for losses	(2,074.4)	(160.3)	(744.6)	(24.4)
Other income	102.9	58.6	253.9	6.8
Other expense	(525.0)	(276.5)	(452.0)	(83.7)
Net income	(2,077.0)	(89.3)	(678.3)	66.3

FINANCIAL RATIOS

Mr. WHITTEN. Please provide for the record a table showing the most recent combined information on the ratios for return on assets, return on equity, net interest margin, net chargeoff on loans, capital-to-assets, debt-to-capital ratios. Please provide the information for the Federal Land Banks, Federal Intermediate Credit Banks, Production Credit Associations, and Banks for Cooperatives.

[The information follows:]

TRENDS IN SELECTED FINANCIAL MEASURES AS OF DECEMBER 31, 1985

[In percent]

	Federal land banks	Federal intermediate credit banks	Production credit associations	Banks for cooperatives
Return on assets	−4.00	−.54	−4.12	0.62
Return on equity	−56.24	−4.78	−24.00	5.69
Net interest margin	.85	1.83	2.14	1.63
Net chargeoffs on loans (dollars in millions)	460.3	38.6	479.6	13.8

TRENDS IN SELECTED FINANCIAL MEASURES AS OF DECEMBER 31, 1985—Continued

[In percent]

	Federal land banks	Federal intermediate credit banks	Production credit associations	Banks for cooperatives
Capital-to-assets ratio	7.10	11.35	17.16	10.98
Debt-to-capital ratio: 1	13.08	7.81	4.83	8.10

[1] Net interest income as a percentage of the total of net loan balance and cash and investment.

LOAN PERFORMANCE

Mr. WHITTEN. Please provide for the record tables showing, by Farm Credit district, the most recent information on the percentage of total value of loans classified as performing, formally restructured, informally restructured, other high risk, and nonaccrual. Please also provide definitions for the classifications. Provide the tables for the Federal Land Banks, Federal Intermediate Credit Banks, Production Credit Associations, and Banks for Cooperatives.

Mr. AUBERGER. We will provide your Committee with that information.

[The information follows:]

Table 4

FLB Loan Performance
December 31, 1985

	Farm Credit District												
	1	2	3	4	5	6	7	8	9	10	11	12	Total
						Percent of Total Loans							
1. Performing	96.2	95.6	91.9	83.3	85.8	80.7	77.4	79.2	78.2	97.7	89.2	84.1	84.5
2. Formally restructured	*	*	*	*	*	0	0.1	*	*	0.1	0	0	*
3. Informally restructured	0	*	0	0	0	0	0.2	*	0	*	0	0	*
4. Other High Risk	3.2	2.9	3.7	5.1	8.2	9.7	10.3	7.7	10.3	2.1	5.7	6.5	7.0
5. Nonaccrual	0.5	1.4	4.4	11.6	6.0	9.6	12.0	13.0	11.4	*	5.1	9.4	8.4
VOLUME ($ million)	966.3	2,124.3	5,181.0	4,049.6	2,578.4	4,694.6	6,943.0	5,267.0	4,783.0	2,715.6	4,498.0	3,558.3	47,358.0
						Percent of Loan Numbers							
1. Performing	97.9	97.4	96.2	94.3	96.3	92.1	92.6	92.0	89.8	98.2	95.0	94.8	94.1
2. Formally restructured	*	*	*	*	*	0	*	*	*	*	0	0	*
3. Informally restructured	0	*	0	0	0	0	0.1	*	0	*	0	0	*
4. Other High Risk	1.8	2.1	2.3	3.2	2.5	5.6	7.3	5.1	6.3	1.7	3.7	4.2	4.2
5. Nonaccrual	0.3	0.4	1.5	2.5	1.2	2.4	0.0	2.9	3.9	*	1.4	1.1	1.6
NUMBER (000)	17.0	35.1	88.3	58.2	33.9	57.9	82.2	66.4	61.5	39.0	23.4	38.1	601.0

* Less than 0.1 percent
Percentages may not sum to 100.0 due to rounding.

Table 5

PCA Loan Performance
December 31, 1985

	Farm Credit District												
	1	2	3	4	5	6	7	8	9	10	11	12[a]	Total
						Percent of Total Loans							
1. Performing	96.7	91.3	87.4	85.6	87.3	83.1	82.8	62.2	82.7	92.6	83.1	83.8	83.9
2. Formally restructured	*	0.2	0.1	0.1	0.8	0.1	0.3	0.0	0.2	0.1	0.4	0.1	0.2
3. Informally restructured	0.0	*	*	0.0	1.0	0.0	0.5	*	0.1	0.0	0.0	0.0	0.1
4. Other High Risk	2.1	7.1	6.8	6.0	8.9	11.2	10.4	14.6	11.4	5.5	11.5	6.2	9.2
5. Nonaccrual	1.1	1.4	5.6	8.3	1.9	5.6	5.9	23.2	5.6	1.8	4.9	9.8	6.5
VOLUME ($ million)	650.2	709.7	1,331.8	1,232.3	513.1	871.3	2,585.1	1,130.9	885.9	1,083.7	2,654.1	761.5	14,409.5
						Percent of Loan Numbers							
1. Performing	98.1	96.2	93.8	93.9	88.7	91.3	89.9	81.1	87.4	95.3	90.5	93.0	92.0
2. Formally restructured	*	*	*	*	0.6	*	0.2	0.0	0.1	0.1	*	0.1	0.1
3. Informally restructured	0.0	*	*	0.0	0.9	0.0	0.4	*	*	0.0	0.0	0.0	0.1
4. Other High Risk	0.9	3.1	2.8	2.2	6.0	3.7	6.4	5.3	6.2	2.3	6.6	3.0	3.9
5. Nonaccrual	1.1	0.7	3.3	3.9	3.8	4.9	3.0	13.6	6.3	2.3	2.9	3.9	3.9
NUMBER (000)	14.0	23.6	39.2	64.7	8.9	25.7	55.9	17.3	11.2	15.3	15.3	11.0	302.2

* Less than 0.1 percent
[a] Excludes PCAs in liquidation

Percentages may not sum to 100.0 due to rounding.

Table 6

FICB Loan Performance
December 31, 1985

	Farm Credit District												
	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Percent of Total Loans												
1. Performing	99.9	89.8	63.9	45.6	84.1	86.9	55.1	0.5	75.2	92.0	80.3	0.5	63.1
2. Formally restructured	0	0	2.7	0	0	0	24.6	0	2.8	0	14.6	0	7.4
3. Informally restructured	0	0	0	0	11.6	0	0	0	0	0	0	0	0.5
4. Other High Risk	0	10.1	30.6	54.2	4.2	12.9	19.7	97.3	21.9	2.7	3.9	96.3	27.7
5. Nonaccrual	0.1	0.1	2.7	0.2	0.1	0.2	0.6	2.2	0.1	5.2	1.2	3.2	1.6
VOLUME ($ million)	583.7	677.0	1,327.3	1,147.9	651.0	769.2	2,399.1	1,194.9	856.5	1,113.0	2,520.4	718.2	13,959.1

Percentages may not sum to 100.0 due to rounding.

Table 7

Banks for Cooperatives Loan Performance
December 31, 1985

	Farm Credit District													
	1	2	3	4	5	6	7	8	9	10	11	12	CBC	Total
						Percent of Total Loans								
1. Performing	99.8	83.3	81.8	99.0	99.5	89.4	97.8	80.7	96.8	86.6	86.0	83.9	97.0	94.2
2. Formally restructured	0	0.1	0	0	0	0	0	1.5	0	6.1	8.6	0	0.2	0.8
3. Informally restructured	0	0	0	0	0	0	0	0	0	0.6	0	0	0	*
4. Other High Risk	*	13.7	12.5	0.8	*	10.3	2.0	11.4	3.0	5.9	0	15.1	1.6	3.4
5. Nonaccrual	0.2	2.8	5.8	0.2	0.5	0.3	0.2	6.5	0.2	0.8	5.5	1.0	1.2	1.6
VOLUME ($ million)	156.7	55.6	283.4	419.9	291.0	308.6	989.1	425.6	346.8	152.1	513.4	291.6	3,867.9	8,[illegible]02.1
						Percent of Loan Numbers								
1. Performing	99.0	94.6	81.2	98.2	98.5	95.8	96.0	89.5	97.3	84.8	97.2	91.1	93.9	94.6
2. Formally restructured	0	1.0	0	0	0	0	0	0.4	0	3.2	2.0	0	1.0	0.3
3. Informally restructured	0	0	0	0	0	0	0	0	0	1.3	0	0	0	*
4. Other High Risk	0.9	3.1	14.0	1.7	0.9	2.8	3.3	7.6	2.6	9.2	0	6.5	3.0	3.9
5. Nonaccrual	0.0	1.0	4.6	0	0.4	1.2	0.5	2.3	0.0	1.3	0.6	2.3	2.0	0.9
NUMBER (000)	103	94	64	284	209	243	685	420	457	152	144	169	99	3,123

* Less than 0.1 percent.
Percentages may not sum to 100.0 due to rounding.

EXPLANATION OF TERMS USED IN CONJUNCTION NONPERFORMING LOANS

The information presented in this report contemplates the separation of loans into two broad categories with respect to their performance status.

Generally, PERFORMING LOANS are those for which borrowers have acted to meet debt obligations in accordance with the terms and conditions established in contractual loan agreements.

Conversely, NONPERFORMING LOANS are generally those for which borrowers have not acted to meet debt obligations in accordance with the terms and conditions established in loan agreements. FCA standards and criteria established for the identification and reporting of nonperforming loans require that borrower actions, or inaction, fall outside objective tolerances before loans are identified and reported as nonperforming.

The general category of nonperforming loans includes four subcategories: (1) formally restructured loans; (2) other restructured or reduced rate loans; (3) other high risk loans; and, (4) nonaccrual loans.

The identification and reporting of a loan to any of the four categories of nonperforming loans does not relieve or otherwise affect the borrower's obligation to repay principal and pay interest according to contractually established terms and conditons. For purposes of determining the financial condition and performance of lending institutions, the accrual of interest as income to FCS banks and associations continues for all categories of nonperforming loans except nonaccrual. Further, except for nonaccrual loans, all categories of performing and nonperforming loans are considered fully collectible.

The following are abbreviated definitions of the subcategories of nonperforming loans used by FCA.

"FORMALLY RESTRUCTURED LOANS" are those for which contractual terms and conditions have been amended or otherwise revised to incorporate concessions made to borrowers that would not otherwise be made by the lender if not for economic or legal reasons.

"OTHER RESTRUCTURED OR REDUCED RATE LOANS" has the same meaning as "formally restructured loans" except that the concessions granted to borrowers have not been incorporated into lending agreements by formal amendment or other revision.

"OTHER HIGH RISK LOANS": (1) are 90 days or more contractually past due or are otherwise in default but adequately secured; or, (2) have been classified "vulnerable" as a result of a periodic credit evaluation, unless restructured; or, (3) are in process of liquidation, collection, bankruptcy or foreclosure; or, (4) otherwise require abnormal servicing to ensure performance or prevent further deterioration.

"NONACCRUAL LOANS": (1) are 90 days or more contractually past due and not adequately secured; or, (2) have been classified "loss" as a result of a periodic credit evaluation, unless restructured; or (3) are otherwise considered uncollectable with respect to all principal as may be outstanding and all past and future interest accruals.

Complete definitions of the various categories of nonperforming loans used by FCA are contained in Section 621.3, Part 621 of regulations proposed by FCA. The proposed regulations would establish regulatory accounting and reporting requirements to be followed by the institutions of the Farm Credit System. The proposed regulations appear on pages 34711 through 34721 of the Federal Register, Vol. 50, No. 166, Tuesday, August 27, 1985. FCA seeks comments from the public on the proposed regulations. Comments must be received on or before October 23, 1985.

Mr. **Whitten**. What is the dollar value of loans held by the Farm Credit System on which the face amount of the loans exceeds the value of the collateral?

Mr. **Auberger**. Mr. Chairman, the Finance Committee of the Farm Credit System did a study on undercollateralized loans in the Federal land banks last year, which is the latest information available. The System study covered the six districts with the greatest problems and concluded that the total undercollateralized loans for the System are estimated to have outstanding balances of $5.6 billion. The amount of undercollateralization is estimated at $900 million.

Mr. **Whitten**. What percent of total outstanding Farm Credit System debt do these loans represent?

Mr. **Auberger**. According to the System study conducted in August 1985, approximately 12 percent of Federal land bank loans are undercollateralized.

STATEMENT OF CONDITION

Mr. **Whitten**. Please provide for the record the most recent update of the Summary Report on the Condition and Performance of the Farm Credit System.

Mr. **Auberger**. Mr. Chairman, we will provide you with the Summary Report for the quarter ended September 30, 1985, which is the most recent period for which a report has been published. The fiscal information reported in our testimony and in reponse to your questions is based on information supplied to the FCA by the System institutions for the quarter ended December 31, 1985.

[Clerk's note.—Due to its length the Summary Report will not be printed in the record and will be retained in Committee files.]

LIQUIDATIONS OR MERGERS

Mr. **Whitten**. Please provide for the record a list of institutions liquidated or merged in 1985 and thus far in 1986.

Mr. **Auberger**. Mr. Chairman, we will be pleased to provide the information for the record.

[The information follows:]

FLBA MERGERS/CONSOLIDATIONS
1/1/85 through 4/25/86

Effective* Date	State & District	Associations Involved
1/1/85	Texas	FLBA of Kaufman-Canton merged into FLBA of Sulphur Springs; name changed to Sabine River FLBA of Sulphur Springs.
5/1/85	South Carolina/ Columbia	FLBAs of Anderson, Batesburg and Rock Hill into FLBA of Spartansburg; name change to Palmetto FLBA
7/1/85	Texas	FLBA of Robstown into South Texas FLBA at Kenedy; name change to FLBA of South Texas at Kenedy
7/1/85	North Dakota/ St. Paul	FLBA of Williston into FLBA of Minot; name change to FLBA of Northwest North Dakota
7/1/85	Michigan/ St. Paul	FLBA of Clare into FLBA Bay City; name change to FLBA of North Central Michigan and relocation to Midland, Michigan.
10/1/85	Minnesota North Dakota/ St. Paul	FLBA of Crookston (MN) and FLBA of Devils Lake (ND) into FLBA of Grand Forks (ND). Simultaneous transfer of Norman County from FLBA Crookston to FLBA Detroit Lakes (MN); Pierce, Benson, Wells, Eddy and Foster Counties from FLBA Devils Lake to FLBA Northwest North Dakota.
10/1/85	Alaska, Idaho, Montana, Oregon, and Washington/ Spokane	Districtwide merger of all FLBAs--39 FLBAs merged into FLBA of Spokane, Spokane, WA, the continuing association.

* Effective date is the beginning of business date on which the action (merger, name change, etc.) takes effect

Effective Date	State & District	Associations Involved
12/1/85	Minnesota/ St. Paul	FLBA of Fergus Falls (MN) and FLBA of Detroit Lakes (MN) into FLBA of Morris (MN); name change and office relocation to FLBA of West Central Minnesota in Moorhead.
1/1/86	California/ Sacramento	FLBA of Riverside, CA into FLBA of San Bernardino, CA; name change to FLBA of Southern California.
1/1/86	Utah/ Sacramento	FLBA of Richfield, UT and FLBA of Northern Utah into FLBA of Central Utah; name change to FLBA of Utah.
1/1/86	California/ Sacramento	FLBA of Sacramento, CA into FLBA of Woodland, CA.
1/1/86	Minnesota/ St. Paul	FLBA of Blooming Prairie, MN and FLBA of Northfield, MN into FLBA of Rochester, MN; name change to FLBA of Southeast Minnesota.
1/1/86	Mississippi/ Jackson	FLBA of Newton, MS into the FLBA of Jackson, MS; name change to FLBA of Central Mississippi.
1/1/86	Georgia/ Columbia	FLBA of Louisville, GA and FLBA of Montezuma, GA into FLBA of Dublin, GA; name change to Central Georgia FLBA.
1/1/86	Georgia/ Columbia	FLBA of Dixie, Vidalia, GA into the Southeast Georgia FLBA, Blackshear, GA; office relocation to Vidalia in Toombs County.

Effective Date	State & District	Associations Involved
1/1/86	Georgia/ Columbia	FLBA of Dawson, GA into FLBA of South Georgia, Bainbridge, GA; name change to Southwest Georgia FLBA.
1/1/86	Indiana, Kentucky, Ohio, Tennessee/ Louisville	Consolidation of 53 FLBAs; name and location, FLBA of the Fourth District, Louisville, KY. Excluded in Kentucky are the FLBAs of Lexington, Mayfield and Shelbyville; and in Ohio, the FLBAs of Bellefontaine, Bowling Green, Fremont, Marion, Minerva, and Ottawa.
1/1/86	Illinois/ St. Louis	Consolidation of Macomb, Monmouth and Pittsfield-Quincy FLBAs. Name and location, FLBA of Western Illinois, Macomb, IL.
1/1/86	Illinois St. Louis	Consolidation of DeKalb-Woodstock and Morris FLBAs; name and location, FLBA of Northeast Illinois, Sugar Grove-Aurora, IL.
1/1/86	Missouri/ St. Louis	Consolidaton of Lee's Summit and Northwest Missouri FLBAs; name and location, FLBA of Northwest Missouri, Warrensburg, MO.
1/1/86	Illinois/ St. Louis	Consolidaton of Kewanee-Galesburg and Bloomington-Eureka FLBAs; name change and location, FLBA of North Central Illinois, Bloomington, IL.
1/1/86	Illinois St. Louis	Consolidation of Springfield-Lincoln, Hillsboro, and Carrollton-Carlinville FLBAs; name and location, FLBA of West Central Illinois, Springfield, IL.
1/1/86	Arkanas/ St. Louis	Consolidation of Jonesboro and Osceola FLBAs; name and location, FLBA of Northeast Arkansas, Jonesboro, AR.

Effective Date	State & District	Associations Involved
1/1/86	Arkansas/ St. Louis	Consolidation of Northwest Arkansas and West Central Arkansas FLBAs; name and location, FLBA of Northwest Arkansas, Fayetteville, AR.
1/1/86	Missouri/ St. Louis	Consolidation of Central Missouri and East Central Missouri FLBAs; name and location FLBA of East Central Missouri, Jefferson City, MO.
1/1/86	Missouri/ St. Louis	Consolidation of Carthage-Aurora, Mountain Grove-Rolla, and Springfield FLBAs; name and location, FLBA of Southwest Missouri, Springield, MO.
1/1/86	Missouri/ St. Louis	Consolidation of Sikeston, Caruthersville, and Poplar Bluff-Farmington FLBAs; name and location, FLBA of Southeast Missouri, Caruthersville, MO.
1/1/86	Illinois/ St. Louis	Consolidation of Belleville and Southeastern FLBAs; name and location, FLBA of Southern Illinois, Mt. Vernon, IL.
1/1/86	Illinois/ St. Louis	Consolidation of Eastern Illinois, Decatur and Champaign-Charleston; name and location, FLBA of East Central Illinois, Champaign, IL.
1/1/86	Missouri/ St. Louis	Consolidation of North Central Missouri and Northeast Missouri; name and location, FLBA of Northeast Missouri, Kirksville, MO.

Effective Date	State & District	Associations Involved
1/1/86	Arkansas/ St. Louis	Consolidation of Pocahontas and Searcy FLBAs; name and location, FLBA of North Central Arkansas, Newport, AR.

Note: Excluded from the above consolidations in the St. Louis District in Arkansas are the FLBAs of Lonoke, Pinebluff, Southeast Arkansas, Eastern Arkansas, Texarkana, and in Illinois the FLBAs of Dixon and Effingham.

Effective Date	State & District	Associations Involved
2/1/86	Colorado, Kansas, New Mexico and Oklahoma/ Wichita	Consolidation of 22 FLBAs. Name and location are: Ninth District FLBA, Wichita, KS. Excluded from the consolidation are the following FLBAs; Altus, OK; Anadarko, OK; Colby, KS; Colorado Springs, CO; Dodge City, KS; Enid, OK; Garden City, KS; Hays, KS; Lamar, CO; Ness City, KS; Ponca City; OK; Southwest Colorado, CO; Western Oklahoma, OK; and Yuma, CO.

PCA MERGERS/CONSOLIDATIONS
1/1/85 through 4/25/86

Effective* Date	State & District	Associations Involved
1/1/85	Wisconsin/ St. Paul	Baraboo PCA merged into Sparta PCA; name change to West Central Wisconsin PCA
1/1/85	Iowa/ Omaha	Southeast Iowa PCA merged into the Eastern Iowa PCA.
1/6/85	Washington/ Spokane	Western Washington PCA (liquidated); territory taken over by Northwest Livestock PCA (aquatic loans) and Central Washington PCA (agric. loans)
1/6/85	Montana/ Spokane	Milk River PCA (liquidated); territory taken over by Northeast Montana and Great Falls PCAs.
1/16/85	Montana/ Spokane	Western Montana PCA (liquidated); territory taken over by Bozeman PCA.
1/16/85	Montana/ Spokane	Glendive PCA (liquidated); territory taken over by Northeast Montana and Miles City PCAs
3/1/85	Alabama/ Jackson	Bay Minette PCA merged into Wiregrass PCA. Name change to South Alabama PCA.
5/1/85	So. Carolina/ Columbia	Anderson PCA, Blue Ridge PCA into Palmetto PCA; relocation of main office to Spartansburg, SC
7/1/85	Michigan/ St. Paul	PCA Traverse City into PCA Bay City; name change and relocation to PCA of North Central Michigan, Midland, Michigan

*Effective date is the beginning of business date on which the action (merger name change, etc.) takes effect

Effective Date	State & District	Associations Involved
9/1/85	Alabama, Louisiana, Mississippi/ Jackson	In Alabama, the PCAs of Coosa Valley, Demopolis, Huntsville, Montgomery, Russellville, and South Alabama, in Louisiana, the PCAs of Opelousas, Pelican and Tallulah; in Mississippi, the PCAs of Central Mississippi, First Delta, Hattiesburg, Northeast Mississippi, Oxford and Southwest Mississippi into Baton Rouge PCA. Name change and office relocation to First South PCA, Jackson, MS.
10/1/85	North Dakota and Minnesota/ St. Paul	PCA Grafton, Grafton, ND and PCA of Thief River Falls, MN into PCA PCA Grand Forks, Grand Forks, ND
10/1/85	Alaska, Idaho, Montana, Oregon, and Washington	Districtwide merger of 20 PCAs into Interstate PCA, Spokane, Washington, the continuing association. Note: Eastern Idaho PCA and Montana Livestock PCA were not party to merger.
10/1/85	Wisconsin/ St. Paul	PCA Lancaster, WI into PCA Dodgeville,* WI; name change and office relocation to PCA Southwest Wisconsin, Platteville, WI.
12/1/85	Minnesota St. Paul	PCA of Fergus Falls, MN and PCA of * Alexandria, MN into PCA of Moorhead, MN; name change to PCA of West Central Minnesota.
1/1/86	Michigan/ St. Paul	PCA Lansing, MI into PCA Alma; name change and office relocation to PCA Mid-Michigan, Lansing, MI.
1/1/86	Minnesota/ St. Paul	PCA St. Charles, MN into PCA Blooming Prairie; name change and office relocation to PCA of Southeast Minnesota, Rochester, MN.

Effective Date	State & District	Associations Involved
1/1/86	Minnesota/ St. Paul	PCA of Fairmont, MN into the PCA of Mankato, MN.
1/1/86	Illinois, Missouri, and Arkansas/ St. Louis	Merger of 31 of 35 production credit associations into the Osage PCA, Warrensburg, MO, the continuing association. Name change and office relocation to the Central PCA, St. Louis, MO. Excluded from the merger are the Delta PCA, AR; Southern Illinois PCA; and Sikeston PCA, MO.
1/1/86	Iowa, Nebraska, South Dakota and Wyoming/ Omaha	Districtwide merger of 36 PCAs into the Scottsbluff PCA, Scottsbluff, NE, the continuing association. Name change and office relocation to Production Credit Association of the Midlands, Omaha, NE.
1/1/86	Indiana, Kentucky, Ohio, and Tennessee/ Louisville	Consolidation of 30 of 35 production credit associations. Name and location, PCA of the Fourth District, Louisville, KY. Excluded from the consolidation are the Marion PCA, OH; Northern Ohio PCA; Jackson Purchase PCA, KY; Chattanooga PCA, TN; and the Central Kentucky PCA.
2/1/86	Colorado, Kansas, New Mexico, and Oklahoma/ Wichita	Consolidation of 17 of 34 production credit associations. Name and location, Ninth District PCA, Wichita, KS. Excluded from the consolidation are the following PCAs; Albuquerque, NM; Chickasha, OK; Clinton, OK; Colorado Springs, CO; Duncan, OK; Eastern New Mexico, NM; Enid, OK; Flint Hills, KS; Garden City, KS; Great Plains, OK; Monte Vista, CO; Northwest Kansas, KS; Shawnee, OK; South Central Kansas City, KS; Southern New Mexico, NM; Sterling, CO; and Woodward, OK.

Liquidated Associations
(Period 1985 - 1986)

Glendive PCA Glendive, Montana	1/16/85	Spokane District
Western Washington PCA Chehalis, Washington	1/06/85	Spokane District
Milk River PCA Chinook, Montana	1/06/85	Spokane District
Western Montana PCA Misoula, Montana	1/16/85	Spokane District

(No associations have been liquidated thus far in 1986.)

ACQUIRED PROPERTY

Mr. Whitten. Please provide for the record a table showing, by Federal Land Banks, Production Credit Associations, and Banks for Cooperatives, the number of units and dollar value of property acquired through foreclosures or voluntary conveyance in 1985.

Mr. Auberger. Mr. Chairman, we will be pleased to provide you with the information on the amount of acquired property held by System institutions. However, FCA no longer collects information on the number of acquired properties and because property is being acquired and sold throughout the year and information reported to our agency by System institutions is on a quarterly basis, the dollar value of acquired property does not indicate the amount of newly acquired property for any given quarter or year.

[The information follows:]

NEW ACQUIRED PROPERTY, DECEMBER 31, 1985

[In thousands of dollars]

	Acquired property	Less: Allowance for losses	Less: accumulated deposits	Net acquired property
Federal land banks	$940,826	$218,881	0	$721,945
Federal intermediate credit banks	28,623	6,037	$2	22,583
Production credit associations	254,778	68,004	1,911	184,863
Banks for cooperatives	11,988	197	598	11,192

Mr. Whitten. How does the present volume of acquired properties compare with previous years?

Mr. Auberger. There has been a significant increase in the dollar volume of acquired properties. For example, the net acquired property held by Federal land banks in 1981 was only $8.2 million. In 1982 there was almost a fourfold increase to $30.3 million. In 1983, there again occurred an increase of almost 400 percent to $115.8 million; and in 1984, the dollar value of acquired properties more than doubled to $313.8 million. The net acquired property value for Federal land banks more than doubled again this year to $721.9 million.

Acquired property in the FICBs, PCAs, and BCs also continues to increase, but the dollar volumes are considerably less. Net acquired property volume increased from in the FLB system December 1984 to December 1985 by $2.6 million to $184.9 million; FICB acquired property volume increased rapidly, but the total increase in 1985 was only $19.1 million; and BC acquired property volume grew from $3.9 million at the end of 1984 to $11.2 million at the end of 1985.

FARMERS HOME INTEREST RATE WRITEDOWN PROGRAM

Mr. Whitten. Do you have any information on the number of PCAs participating in the FmHA interest rate writedown program? What is the number and dollar value of the loans on which PCAs have participated?

Mr. Auberger. The PCAs are not required to report the number and dollar value of loans in the writedown program to FCA; therefore, we have no statistics on these items. For the record, however, I would like to point out that on March 28, 1986, Acting Chairman Wilkinson sent a letter to the CEO of each Farm Credit bank encouraging them to evaluate this program and the Approved Lender Program as avenues for reducing credit risk and assisting System borrowers.

Although we cannot quantify the number of PCAs participating in the Interest Rate Writedown Program, the number is probably small. Information from FmHA indicates that there has been very little participation in this program by any commercial lending group, primarily because the lenders cannot afford the cost of their share of the interest writedown.

Mr. WHITTEN. Have the PCAs experienced any problems participating in the program? Please explain in some detail for the record.

Mr. AUBERGER. The lack of participation by PCAs does not necessarily imply that there are operational problems in the way the program is administered. It is widely recognized, however, that FmHA is understaffed, which often causes lengthly time delays in obtaining approvals. Problems with the writedown program stem largely from the financial condition of the lending institution and FmHA's eligibility requirements. To obtain the FmHA guarantee, the loan must have a positive cash-flow. Asking a lender to restructure a loan or to write down the interest rate to qualify for this program is manageable so long as the financial institution is strong and the potential losses are relatively small. However, the situation is vastly different for weak institutions. Their ability to write down principal or interest is greatly constrained by a need to protect earnings. Frequently they determine that their best hope is to stay with a marginal borrower under the original loan terms than to take a writeoff that will further dissipate bank capital. Unfortunately, for many lending institutions, the problem is more basic, the level of financial stress for some borrowers is so severe that no amount of interest rate relief will solve the problem for either the borrower or the lender. In these cases, prospective losses can quickly erode the capital strength of the financial institution, making it difficult for the lender to participate in writedown programs that could help the marginal borrower.

FARMERS HOME OPERATING LOAN GUARANTEE PROGRAM

Mr. WHITTEN. Do you have any information on the number of loans and dollar value of those loans made by PCAs with an FmHA guarantee?

Mr. AUBERGER. In the first 7½ months of fiscal 1986, total operating loans made by commercial lenders with an FmHA guarantee amounted to $595 million, which is well below FmHA's budget authority of $1.6 billion. Precise data are not available on whether the institutions making the loans are commercial banks or Farm Credit System institutions. However, FmHA estimates that only 15 percent of all guaranteed loans are made by Farm Credit System institutions and the other 85 percent by other commercial lenders.

Mr. WHITTEN. Last year you stated that the amount of time required to process a Farmers Home guaranteed loan was a barrier to increased participation in this program. Is this still a problem? What is the average amount of time required to process a Farmers Home loan guarantee?

Mr. AUBERGER. The 1985 Farm Bill requires all FmHA loans applications to be approved or rejected within 60 days of completion of the application process. On average, a guaranteed loan application takes the full 60 days of consideration if the lender does not have approved lender status. Even with approved lender status, the lender and the borrower are subjected to a considerable amount of paper work that still requires an average of 30 days between application and approval or disapproval.

Mr. WHITTEN. Are there other problems with the program that are limiting participation?

Mr. AUBERGER. Perhaps the main drawback to participation in the FmHA guaranteed loan programs is the cash-flow requirement placed on the borrower. In order to qualify for an FmHA guaranteed loan, the borrower must show at least a break-even cash-flow. If this qualification is not met, it then becomes the responsibility of the commercial lender to restructure the loan in a manner that improves the borrower's cash-flow to at least the break-even point. This requires the lender to make concessions that many lenders do not have the financial wherewithal to bear. Most commercial lenders are currently in a period of retrenchment, attempting to recover from mounting loan losses and increasing levels of nonperforming loans. It appears that rather than participating in the guaranteed loan programs of FmHA commercial lenders are referring their weakest borrowers to FmHA's direct operating loan program, where stressed limited resource borrowers can take advantage of 6.5 percent loans. As of April 16, activity in the direct OL program continues to be brisk, with $1.7 billion in direct loan obligated out of a budget of $2.2 billion, and in many states budget authority has been virtually exhausted. Nearly 75 percent of the the $2.2 billion has gone to the limited resource borrowers at the below-market rate.

Mr. WHITTEN. You also stated last year that institutions of the Farm Credit System should have blanket approval in the FmHA approved lender program. Was that achieved?

Mr. AUBERGER. On March 22, 1985, FmHA published amended regulations that allowed most Farm Credit System institutions to qualify for the approved lender program. Although the approved lender program facilitates the processing of guaranteed farm loans, System participation in the program has not been substantial.

Mr. WHITTEN. What is the volume of participation in this program?

Mr. AUBERGER. We do not have figures on the volume of loans that are made through the approved lender program; however, it can be deduced that not many lenders are taking advantage of their approved lender status. At the end of fiscal 1985, 2,191 financial institutions held approved lender status. Despite this high level, all guaranteed operating loans made between October 1985 and April 16 1986, totaled only 1,741, far less than FmHA's budgeted level of 4,229 guaranteed loans.

LEVEL OF CREDIT ACTIVITY

Mr. **Whitten**. How does the current level of lending for the Federal Land Banks, the Federal Intermediate Credit Banks, the Production Credit Association, and the Banks for Cooperatives compare with previous years? Please provide a table showing the combined total of the number of loans made and the dollar value of those loans from 1980 to present.

Mr. **Auberger**. There has been a reduction in the volume of loan activity in the past 3 years that we anticipate will continue at least through 1986.

[Farm Credit System loan volume table follows:]

[Dollar in thousands]

1980	$66,248,780
1981	75,806,430
1982	78,510,901
1983	79,127,169
1984	77,786,497
1985	69,805,000

Mr. **Whitten**. To what do you attribute the change in lending volume?

Mr. **Auberger**. A number of factors have contributed to reduced lending levels. Foremost has been an attempt by agricultural producers to reduce their debt levels and the cost of servicing debt. The rapid expansion of agriculture and agricultural debt in the 1970s anticipated markets, especially foreign markets that did not materialize, and to some extent many farmers were overcapitalized entering the 1980s.

A second major factor has been the lack of creditworthiness of many applicants for agricultural credit. The cost-price squeeze and high debt-to-asset ratios of many farmers have led to severe economic stress and an ability to support existing and increased indebtedness. Drops in land values have also severely reduced creditworthiness, which is an important eligibility requirement for Farm Credit System borrowers.

A growing factor, resulting from heavy loan losses and the resulting necessity to hold interest costs at levels to cover losses and build reserves for losses, has been the flight of borrowers to other financing sources. Thsi has been especially true of some of the strongest borrowers who can obtain lower interest rates at commercial banks. Furthermore, the commercial banks have sufficient liquidity to expand their lending activity to strong agricultural producers.

MARKET SHARES

Mr. **Whitten**. Please provide for the record a table showing market shares of agricultural credit by type of credit institution for 1980 through 1985.

[The information follows:]

The following table summarizes market shares for all agricultural institutional lenders on December 31 of each year:

[In percent]

Year	Farm Credit System	Commercial banks	Life insurance companies	FmHA	CCC
80	42.2	23.3	9.6	14.5	3.7
81	43.5	27.3	8.7	15.3	5.3
82	41.7	26.9	7.7	14.4	9.3
83	41.8	29.4	7.7	14.5	6.6
84	41.2	30.2	7.5	15.6	5.4
85	36.0	28.7	7.3	17.1	11.0

Note: Totals may not add up to 100 percent of rounding.

CREDIT DENIALS

Mr. WHITTEN. Please provide for the record a table showing the combined number of credit denials made by the Farm Credit institutions for 1980 through 1985.

[The information follows:]

FORMAL CREDIT DENIALS

	PCA's	FLB's
1980	NA	NA
1981	NA	NA
1982	9,800	20,540
1983	8,551	16,211
1984	8,933	16,580
1985	7,874	11,323

Mr. WHITTEN. What percentage of the credit denials would you estimate are made to borrowers with existing production credit or other Farm Credit System loans?

Mr. AUBERGER. We have no information on other lenders' formal denials. However, denials issued by PCAs and FLBs were very small in relation to the number of borrowers from these institutions.

[Additional information follows:]

NUMBER OF BORROWERS AT YEAR END

	PCA's	FLB's
1980	372,400	593,600
1981	380,200	646,400
1982	364,800	667,900
1983	340,800	662,300
1984	337,400	652,800
1985	302,200	601,000

Mr. WHITTEN. How does this level of loan denials compare with previous years?

Mr. AUBERGER. The number of denials has varied over the past 5 years, reflecting the growth the number of farmers with debt levels that are not sustainable in an environment of disinflation in land values.

Mr. WHITTEN. How many of the borrowers denied production credit would you estimate are seeking credit from the Farmers Home Administration?

Mr. AUBERGER. The data on formal denials reflect letters issued for the purposes of qualifying for FmHA credit. We believe that a very high proportion of those receiving letters of formal denial are making application for FmHA loans.

Mr. WHITTEN. What would you regard as the ideal debt-to-asset ratio for the farm sector?

Mr. AUBERGER. Mr. Chairman, no single debt-to-asset ratio is ideal for all types of sizes of farms, and the appropriate ratio also varies with the management efficiency of the operation. The critical factor in determining a reasonable debt-to-asset ratio is maintaining a positive cash-flow, and that factor is itself a variable. The "breakpoints" of 40 and 70 percent debt-to-asset ratios used in many analyses are simple general guidelines. Some farms with high ratios have positive cash-flows, and others with low ratios are unprofitable. We can say that the sustainable ratio has decreased significantly for all farm types and sizes from the 1970s to the 1980s. This is due to the disappearance of capital gains as a supplement to current earnings and to the continuing high real rates of interest in the U.S. economy.

FARMERS HOME ADMINISTRATION STAFFING

Mr. WHITTEN. Last year you were of the opinion that FmHA was understaffed to the extent that it was impairing coordination with the Farm Credit System and other agricultural lenders in attempting to service the demand for agricultural credit. Do you still feel this way even with the Administration's emphasis of greater use of FmHA loan guarantees?

Mr. AUBERGER. FmHA has made some progress in alleviating the case load of their loan officers. However, the greater impediments to the program center on FmHA eligibility requirements and the condition of commercial institutions.

REVOLVING FUNDS

Mr. WHITTEN. The Farm Credit Amendments Act of 1985 merged the Farm Credit Administration's two revolving funds and gave the Farm Credit Administration discretionary authority to use the new fund to purchase stock in the Capital Corporation. How much money is now in the revolving fund?

Mr. AUBERGER. The Capital Corporation Investment Fund has an unobligated balance of $259,798,716.

Mr. WHITTEN. Do you anticipate any need to request financial assistance from the Secretary of the Treasury as authorized?

Mr. AUBERGER. We believe that the System has adequate reserves to see it through FY 1987 without an infusion of Federal Assistance or the use of the revolving fund.

AGRICULTURAL CREDIT OUTLOOK

Mr. WHITTEN. Please provide for the record a copy of the report entitled "Agriculture and Credit Outlook for 1986."

Mr. AUBERGER. I will be pleased to provide our annual Agricultural Outlook report.

[CLERK'S NOTE.—Due to its length the document will not be printed and will be retained in Committee files.]

LENDING LEVELS

Mr. WHITTEN. What trends do you see in the level of your lending over the next five years?

Mr. AUBERGER. Given the current state of American agriculture, FCA expects Farm Credit System lending operations to continue experiencing paydowns during the next 2-3 years although at a lower rate each year than that experienced in 1985. A gradual improvement in lending levels is expected from that point on.

NET FARM INCOME

Mr. WHITTEN. Please submit for the record an update of the chart and table on net farm income appearing on pages 721 and 722 of last year's hearing record.

[The information follows:]

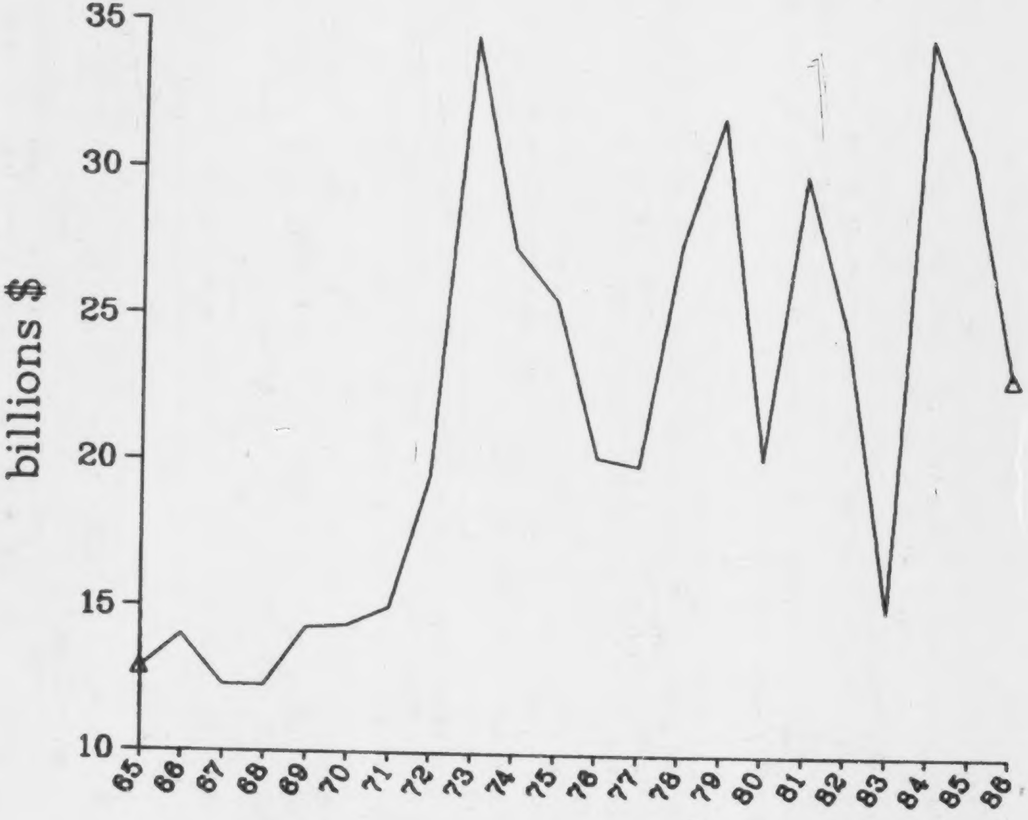
Net farm income, 1965-86

[In billions of dollars]

Year:	*Net income*
1965	12.9
1966	14.0
1967	12.3
1968	12.3
1969	14.3
1970	14.4
1971	15.0
1972	19.5
1973	34.4
1974	27.3
1975	25.5
1976	20.2
1977	19.9
1978	27.4
1979	31.7
1980	20.2
1981	29.8
1982	24.6
1983	15.0
1984	34.5
1985	29-32
1986	21-25

Data for 1985 and 1986 are forecast ranges from USDA's May "Agricultural Outlook." Data include farm households.

Net Farm Income, 1965–86



CONSOLIDATED REPORTING SYSTEM

Mr. WHITTEN. Last year you stated that you expected to be receiving all Federal Land Bank, Federal Intermediate Credit Bank, Production Credit Association, and Banks for Cooperatives financial statements electronically by the end of 1985, and that remaining components of the consolidated reporting system would be implemented in 1986. Are you now receiving the financial statements and do you still expect to implement the rest of the system in 1986? If not, please explain in some detail for the record.

Mr. AUBERGER. Most bank level reports are submitted in both hard copy and on computer tape. Once a reporting bank completes two successful test quarters of dual reporting, all future reports are to be on tape. PCA data begins the progression to computerized reporting with the March 31, 1986, quarter; FLBAs begin quarterly reporting on March 31, 1986. PCA loan account data are currently being submitted on tape. The Farm Credit Amendments Act of 1985 estblishes a direct reporting relationship between FCA and the associations. Procedures are being developed to handle this new arrangement.

Mr. WHITTEN. What is the present level of lending to rural electric cooperatives by loan purpose, e.g., distribution systems, generation and transmission systems, and telephone systems?

Mr. AUBERGER. The most current figures available are as of December 31, 1985. At that time, the Farm Credit System had loans outstanding of $1.95 billion to rural utility cooperatives. Of this amount, $1.83 billion was outstanding to generation and transmission systems and $118 million was outstanding to distribution and telephone systems. The banks for cooperatives additionally had issued $254.9 million in letters of credit. Comparatively, the banks for cooperatives had $1.59 billion in loans outstanding to rural utility cooperatives at December 31, 1984, indicating tht loans outstanding to rural utility cooperatives increased approximately $360 million during 1985.

Mr. WHITTEN. Do you anticipate these loans will increase significantly now that the Banks for Cooperatives' lending criteria has been relaxed?

Mr. AUBERGER. The relaxed eligibility standards are only one factor of many that affect the bank for cooperatives' lending to rural utility cooperatives. It is anticipated that loans outstanding to rural utility cooperatives will show some increase in 1986. It is not expected, however, that such outstanding loans will show a dramatic increase in the immediate future. Over the longer term, loans to distribution and telephone systems are projected to increase significantly as a result of the new eligibility standards.

EXPORT SALES

Mr. WHITTEN. What are your estimates for 1986 and 1987 of the amounts the Banks for Cooperatives will extend international credit to support the export sales of cooperatives, together with your estimate for the proportion of these sales that will carry a government guarantee?

Mr. AUBERGER. Based on estimates made by the banks for cooperatives for 1986 and 1987, international credit extended by the banks for cooperatives in 1986 is anticipated to remain at depressed levels, with some increase expected in 1987. New credit extensions are estimated to be approximately $275 million in 1986 and $350 million in 1987. Government guarantees have historically existed on 95 percent of credit extensions, but the proportion of credit extended, which carries a government guarantee, has trended downward recently and this trend is expected to continue.

Mr. WHITTEN. How does this compare to 1984 and 1985?

Mr. AUBERGER. At December 31, 1985, the banks for cooperatives had $739.3 million in international credit extended compared to $781.2 million in international credit extended at December 31, 1984. Approximately 85 percent of the international loans outstanding carried a U.S. Government guarantee issued through the Commodity Credit Corporation.

FARMERS HOME ADMINISTRATION GRADUATION

Mr. WHITTEN. What information do you have regarding FmHA's performance in graduating their borrowers to commercial sources of credit, including the Farm Credit Systems?

Mr. AUBERGER. As you are well aware, many farm operators have experienced severe financial stress over the last few years. Their ability to reestablish their creditworthiness and graduate to commercial credit is very limited. In fiscal 1985, 1,083 borrowers in FmHA's operating, farm ownership, and emergency disaster loan programs had their FmHA loans refinanced by other credit sources. This represents less than one-half of 1 percent of the 276,000 FmHA farmer borrowers.

LOAN TURNDOWNS

Mr. WHITTEN. Do you have any indication of the number of loan applicants that are being turned away and sent to the Farmers Home Administration?

Mr. AUBERGER. Information on formal denials is collected from System institutions on a quarterly basis. All reports on the quarter ended March 31, 1986, have not been received and a tabulation would be incomplete. We will be pleased to provide your committee with the number of formal denials issued by System institutions when the banks and associations have completed their reports. We anticipate that most of the borrowers who receive formal denials will apply to FmHA for loans, but we have no means of obtaining information on how many borrowers denied credit by System institutions will ultimately apply to FmHA.

FCA ASSESSMENTS

Mr. WHITTEN. Would you please provide some detailed information on how you make assessments to your member banks? Include in this both the way you make assessments under normal procedures and the way you make assessments with the new hirings that are going on.

Mr. AUBERGER. Under normal procedures, each of the 37 Farm Credit banks is billed in advance quarterly on the basis of a formula using loan data for the latest known 12-month period. FLBs and

FICBs are both assessed 40 percent of the total budget and banks for cooperatives are assessed 20 percent. Within each banking group, 20 percent is suballocated evenly, 70 percent is suballocated on the basis of loans outstanding, and 10 percent is suballocated on the basis of loans made. For this purpose, the amounts of loans outstanding and of loans made by PCAs and by FICBs to other financing institutions are combined in each district. As soon as practicable after the end of the fiscal year, final settlement is calculated, reported to the banks, and executed by adjustments to the quarterly billing next following the close of the fiscal year.

Assessments for the increase to fund expanded responsibilities for credit reviews in Farm Credit associations are handled in the same way that the basic assessments are handled, except that the increase is assessed 50 percent to the FLBs and 50 percent to the FICBs. Suballocations to the land banks and the credit banks are made following the same formula as for basic assessments: 20 percent divided evenly, 70 percent on the basis of loans outstanding, and 10 percent on the basis of loans made.

LANDOWNERS PROTECTION ACT PROPOSAL

Mr. WHITTEN. Please submit for the record your comments on the Landowners Protection Act—S. 2144.

Mr. AUBERGER. We will provide you with a copy of our letter to Senator Helms, dated April 18, 1986, that responds to the Senate Agriculture Committee's request for comments on S. 2144.

[The information follows:]

APR 18 1986

Honorable Jesse Helms
Chairman, Committee on Agriculture, Nutrition,
and Forestry
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

The following is an analysis of S. 2144, a bill introduced by Senator Nickles on March 5, 1986, and referred by the Senate Agriculture Committee to this agency for comments.

The Agency Position

The Farm Credit Administration (FCA) opposes this bill because it constitutes, in effect, a moratorium on foreclosures and a requirement that institutions restructure troubled debt in a manner inimical to the safety and soundness of lending institutions. Thus it would accelerate the financial deterioration of the Farm Credit System (System). All costs of compliance would be borne by the member borrowers of the private cooperative System.

The bill severely limits the discretion of duly elected farmer directors and managers of System institutions to use their business judgment. For their judgment, it substitutes that of "independent appraisers" under a reimbursement scheme that encourages decisions adverse to the safety and soundness of System institutions and the interests of their membership. It attacks the basic premise of lending -- that borrowers must repay their loans -- and substitutes the virtual requirement that lenders restructure loans in default rather than foreclose.

The bill subjects foreclosure and restructuring decisions to a rigorous, time-consuming, and costly review and appeals process. It appears to give rise to a private cause of action for case-by-case judicial review of decisions. It imposes this process on top of existing requirements of law entitling member/borrowers of System institutions to full disclosure, access to documents, notice of forbearance policy, and right of notice and reconsideration of action on loan applications. The bill further prohibits System institutions from taking steps to ensure that their collateral position is secure.

These requirements are similar to those imposed on Federal lending agencies that are supported with tax dollars. The effect of these provisions will be to cause creditworthy System borrowers to bear the cost of delay, litigation, and borrower flight that will probably result.

There does not appear to be any justification for imposing these types of burdens on any privately owned institutions and especially not on the System when the same burdens are not imposed on all other commercial lenders. While affected borrowers may disagree with the collection actions of their System lenders, those decisions are rendered by the board of directors or their duly delegated agents on the basis of the board's determination that such actions are in the best interest of all the stockholders of each System institution, not just the defaulting borrower.

Federal intrusion into this decisionmaking process can only have the effect of increasing costs to all System borrowers and forcing more of them to seek financing elsewhere. This will result in an acceleration of the current difficulties being experienced by the System and will benefit commercial lenders. Creditworthy borrowers of System institutions who can obtain financing elsewhere will most assuredly evaluate this type of legislation from the perspective of whether they can refinance their loans through other lenders who are able to exercise business judgment and carry out their responsibilities to all their shareholders.

Summary of S. 2144

Section 2 creates a Part G of Title IV of the Farm Credit Act. Section 4.40 defines, inter alia, 1) a credit review committee and 2) the cost of foreclosure. Section 4.41 defines an eligible borrower. Section 4.42 states that a System institution must determine the cost of foreclosure and the cost of restructuring a loan before proceeding with a foreclosure action. Section 4.43 provides that if the cost of foreclosure exceeds the cost of restructuring, the institution must restructure the loan. Section 4.44 provides that an institution may not require additional collateral from a borrower whose loan payments are current or attempt to foreclose in lieu of additional collateral being provided. Section 4.45 provides for appeals by the borrower if the institution determines to foreclose or determines a restructuring of the loan with which the borrower disagrees. Section 4.46 requires the Chairman of the FCA to provide a report on actions taken pursuant to the new Part G 270 days after passage. Section 4.47 provides that Part G shall terminate in 1 year after passage or 90 days after submission of the required report, whichever is later.

Concerns:

Definitions

Section 4.40 defines a "credit review committee." The bill requires credit review decisions by such a committee selected "from and by" the board of the institution, or in the case of consolidated or merged institutions, by "advisory boards." Section 4.14 of the Farm Credit Act already provides for the establishment of review boards for actions relating to loan applications. The bill would apparently require the creation of a new type of review board.

The FCA has consistently held that credit review decisions are only to be made by board members or designated employees of System institutions. "Advisory committee" members are not empowered to exercise this type of authority. Such members are not officials of the institutions and any legislation that would empower them to make critical credit review decisions on behalf of the institution would derogate from authority of elected board members.

Section 4.40 further provides six elements that an institution would have to determine to identify the "cost of foreclosure." Three of these elements are so unquantifiable and speculative as to pose serious difficulties in arriving at accurate estimates. They are 1) the estimated cost of administrative and legal actions necessary to foreclose a loan and dispose of acquired property; 2) the estimated adverse impact of the sale of acquired property on the property value of other borrowers from the institution; 3) the estimated cost of changes in the value of collateral during the period when the loan is being foreclosed and the land is being resold. The bill provides that such determinations are available to the borrower and subject to an independent appraisal. It is questionable whether such determinations can be made with enough objectivity to result in a degree of accuracy that will be satisfactory to the parties or suitable as the basis for decisions, which are subject to administrative review and possibly judicial review.

The term "cost of foreclosure" should include a reference to the unpaid interest on a loan, and should not restrict the computation of collections to amounts realized from a collateral securing the loan. There may be other assets that the lender can reach in satisfaction of the debt. The definition discusses the estimated cost of maintaining the loan as a nonperforming asset. After foreclosure, however, it is no longer a loan. More importantly, this should be a net cost that should include a computation for rental receipts or other proceeds obtained by the lender during the holding period.

The term "institution" is broadly defined. If it is intended that the Farm Credit System Capital Corporation (Capital Corporation) is included, there are a number of provisions of the bill that create significant problems. First, the Capital Corporation will hold loans and make foreclosure decisions, and yet the bill would require the credit review committee of the institution that originated the loan to make the decisions regarding forbearance. In essence, an institution that no longer has liability on a loan would be making a decision that, in theory, could bind the Capital Corporation. Moreover, as a technical matter, the bill requires that eligible borrowers be "stockholders" of the institution. If a loan is sold to the Capital Corporation, the farmer will not be a stockholder, and may not be a stockholder of the originating lender who sold the loan.

Section 4.46 requires the FCA to report on the accuracy of determinations of the cost of foreclosure. Producing a meaningful report given such vague criteria poses significant problems.

Cost of Restructuring

Sections 4.42 and 4.43 state that the institution must determine the cost of restructuring "in accordance with this part" but does not provide any standards to guide such determination. These costs involve a number of variables that can be subjected under section 4.45 to an independent appraisal. Yet the limits of what may be considered costs of restructuring are not set forth.

Collateral

Section 4.44 prohibits System institutions from obtaining additional collateral to secure a loan if the borrower is current on interest payments. It also prohibits foreclosure or liquidation in such cases for failure to provide the additional collateral.

These provisions will hasten the financial deterioration of System institutions. They prevent banks and associations from taking action to limit the risk inherent in undercollateralized loans. All commercial lending institutions regularly seek to strengthen weak collateral positions in accordance with sound business practice. It is very unusual, however, for any financial institution to initiate foreclosure or liquidation on a loan not in default of its repayment covenant for failure to provide additional collateral.

Appeals

Section 4.45 provides for two stages of appeals by borrowers to the institution: first they may appeal the decision that foreclosure is less costly than restructuring, and second they may appeal the appropriateness of the institution's proposed restructuring. Regarding the former decision, the borrower may require the institution to arrange an independent appraisal.

If the independent appraiser finds that the cost of foreclosure is less than the cost of restructuring, the appraiser must look to the foreclosed party for payment for his service. It is difficult to see how the borrower will ever bear the cost of the appraisal, because, by definition, he is in default on the loan, cannot obtain refinancing, and is probably in a collateral deficient position.

If the appraiser concludes that restructuring is less costly, the institution pays the fee. Because a System institution is more likely to be solvent than a borrower in default, the bill creates an incentive for appraisers to conclude in favor of restructuring.

To effectively fulfill their responsibility, such appraisers must have access to vitally important and sensitive business information of System institutions. Strategic plans of System institutions and their long- and short-term operational, pricing, and income goals are necessary factors to take into consideration in determining the cost of foreclosure and restructuring. Yet, the bill provides no protection to ensure that such information will be protected from inappropriate use.

Limit of Act to System Institutions

This act would apply only to System institutions. In general, it is in the best interest of all lending institutions to evaluate whether it is less costly to restructure or foreclose. However, the bill imposes increased costs to this process. Thus, System institutions would be placed at a disadvantage to other lenders. The additional cost of conducting foreclosure determinations in the manner required by S. 2144 would be reflected in increased interest charged on System loans, further disadvantaging System lenders. In addition, the cost of attempting to impart some stability to the farmland market would be borne by System institutions to the advantage of other lenders who would be able to sell their acquired properties more quickly. S. 2144 should apply to all lenders who serve the same class of borrowers.

Tax Impact Upon the Borrower

The borrower is presumed to be left in a much better position as a result of restructuring the loan, rather than foreclosure. However, because foreclosure and bankruptcy may be avoided, there could be some serious tax consequences for the borrower. In the eyes of the Internal Revenue Service (IRS), the borrower may receive a huge gain subject to taxation. Thus, much of the obligation that the lender may be willing to write off could be transformed into an obligation by the borrower to the IRS.

Budget Impact

There would be no direct and immediate impact on the Federal budget as a result of passage of S. 2144. Costs of complying with the analysis, review, and appeals procedures outlined in the bill would be borne by System institutions and their member borrowers. The costs of writing regulations, producing reports, and monitoring System compliance could be substantial and would also be borne by System institutions that are required to fund the operation of the FCA. The bill accelerates the financial deterioration of the System and increases the probability that backstop Federal financial assistance under P.L. 99-205 may be necessary.

Regulatory Impact

The bill would require the FCA to draft new regulations and undertake additional compliance and enforcement actions. Specifically, S. 2144 would require promulgation of regulations governing the selection of independent appraisers. To fulfill the requirements of Section 4.46, FCA would have to require System institutions to collect, maintain, and report certain data that are not presently available.

Sincerely,

Kenneth J. Auberger

Kenneth J. Auberger
Acting Chairman

FCA SALARIES

Mr. **Whitten**. Provide the salary schedule for FCA employees.

Mr. **Auberger**. FCA employees are competitive civil service employees of the Federal Government. The Farm Credit Act of 1971, as amended, provides that FCA employees are subject to pay schedules established by Congress. The highest paid FCA employee, the Chairman, is paid $73,600 per annum.

EXPANSION OF CREDIT EXAMINATION ACTIVITIES

Mr. **Whitten**. Please submit for the record information on lease rates on new and existing field offices.

[The information follows:]

[Per square feet]

Oklahoma City, OK	$9.97
Omaha, NE	13.50
Louisville, KY	12.38
Sacramento, CA	19.49
Atlanta (Marietta), GA	13.96
Dallas (Irving), TX	14.57
Albany/Troy, NY	13.00

If a Baltimore examination office is opened, the estimated annual lease rate would be $18 per square foot.

The current annual rates for existing field offices are:

[Per square feet]

Spokane, WA	$16.50
St. Louis, MO	16.01
Bloomington, MN	15.27

Mr. **Whitten**. Well, I could go along this way, but I will yield at this time to Mrs. Smith.

Mrs. **Smith**. Thank you, Mr. Chairman, and welcome to all of you.

Mr. Auberger, I was interested in your comments about how much progress you had made with the FCA regulations, and I understand why you did not address the questions that I asked you in my letter sent to you last week. You probably haven't seen the letter, and I don't always get my letters immediately.

So I would like to ask you the questions that I asked you then.

Now, I understand, according to your regulations, that Federal financial assistance would not be made available until the institution had utilized all of its surpluses and the member stock was in jeopardy of being impaired. And then it would include only the amount necessary to prevent this impairment of stock. In other words, until the system is bled of capital and the liquidators are knocking on your door, you wouldn't have any money and then only enough to barely keep you solvent.

In other words, your institution would not be viable and would not be in a position to try to give meaningful help to the members, such as having competitive interest rates.

You spoke of fulfilling the intent of the Congress. This kind of regulation does not fulfill the intent of the Congress, because the intent of the Congress was to help the people across the country who are borrowing. A lot of the agricultural community is looking to the FCA Capital Corporation for survival. And, as I understand your regulations, they are contrary to the goal of really making yourself of service to the producers, and if you are not of service to the people out there who are struggling, then we don't have really any need for your service.

Mr. AUBERGER. The concern that you raise is a good one, but I think you have to go into the definition of what is financial assistance. For example, we believe that the intent of the Congress was financial assistance after, of course, you helped yourself.

Now, the regulations in other sections provide that if a particular institution is in financial difficulty, it can go to the Capital Corporation first and ask that the Capital Corporation purchase its nonperforming loans; this is a "work-out" bank, in other words.

Now, what happens there is that the institution is thus relieved of these financially distressed loans and receives in turn cash, hopefully the idea that that makes that a viable institution and kind of a fresh start. And they can then proceed with lending under the regular criteria.

Now, obviously, when this happens, the Capital Corporation is going to be striking a purchase deal with the institution and the amount of money that they receive for those assets may not be what they would like to get. And there still may be a technical impairment question arising there.

Then, of course, the Capital Corporation will look at the instance and say, all right, in addition to purchasing those assets, we will also look to see what kind of direct financial assistance you need, especially if it is going to mean impairment.

So financial assistance would be given to prevent impairment.

So you have to look at all the aspects of the Capital Corporation, what its business and authorities are. It has more than one, in other words. In our view, its prime purpose is the work-out bank, to relieve the institutions of the distressed loans.

Mrs. SMITH. Next I would like to ask you, Mr. Auberger, what steps you are taking to get your interest rates down to a competitive rate? I know when our fine Chairman asked you what you were doing to help the farm situation, you said that some of the costs were going to go down.

Let me point out that this interest rate that you are charging is really prohibitive. You are still charging in my district 12½ percent on Federal Land Bank loans. A good constituent of mine was able to refinance his land at a little less than 10 percent the other day.

Now, on feeder cattle, if you run a thousand head through your feedlot in a year, which many people do, and if you are 55-percent leveraged, a drop of 1 percent would reduce the cost $10,750; a drop of 2½ percent, down to 10 percent from 12½, would cut his cost $26,900.

Now, this is the kind of thing that needs to be done, and you are not being competitive and you are not serving agriculture with these high interest rates.

Now my question: What are you doing to get those interest rates down to where they are competitive?

Mr. AUBERGER. Again you raise a very important subject, and I will just make a few comments and then, if you would like more detail, we can ask Mr. Edwards to fill in on that.

The financial problems the System is experiencing have made it difficult for System institutions to rapidly reduce their lending rates as interest rates have declined without severely damaging their financial condition. However, the Farm Credit Administration believes the System institutions have considerable flexibility under these circumstances and can provide competitive lending rates for many borrowers. For this reason, FCA will continue to encourage System institutions to develop interest rate programs that provide more attractive rates without sacrificing the System's earnings position. Some of the institutions have done this; others have shown no inclination to do this—they are not using the tools they have.

Now, specifically for Omaha, I'd have to let Mr. Edwards—he could tell what your banks are doing.

But across the system there is a lot of room for banks to be making inroads with more favorable interest rates.

Mrs. SMITH. Mr. Edwards, before you comment, could you give me the exact figure of how much of your borrowers' money has been withdrawn recently in the Grand Island district?

Mr. EDWARDS. On that, no, ma'am; I can submit for the record——

Mrs. SMITH. Well, it's roughly $59 million, and that, of course, is better borrowers who are able to borrow at a significantly lower rate.

Mr. EDWARDS. Let me give you some overview. Since January 1, we received requests from the banks for interest rate actions in thirty-eight cases; twenty-three of those were approved, fourteen were denied—and we still have one pending.

Mrs. SMITH. These are your better borrowers who you will reduce the interest rates to 11¼ percent?

Mr. EDWARDS. We have encouraged the banks, particularly the land banks, where the competitive question is most severe, to move toward either different interest rate programs that does allow them to set rate structures that retain those better customers, or to move towards some fixed-rate financing which would also do that.

Some of the banks have adopted those programs; others have simply taken the position that they are not going to do that.

The land bank system cost of debt right now—you spoke of the individual who is able to get a 10-percent interest rate—for the land bank system the cost of debt outstanding right now is in excess of 11 percent. So there are some financial reasons within the institutions why rates can't come down to levels like you cited in that case. There isn't any question but what the system is losing some good borrowers. But there are tools available to them if they care to use them to stop that flow, or at least stem it.

Mrs. SMITH. I have a lot of questions, and I will submit some for the record. But I would like to ask a couple more that I am getting many questions about.

It appears that when you foreclose on an existing farmer, you will allow the person that is replacing that farmer, maybe without the experience, without having put in the struggle, to go on that land and borrow from you at 10 percent, whereas the fellow that you threw out may have been paying 12½ or 13 percent.

I don't understand why you do that, because if you had let the farmer stay on, he would probably have had a better chance of making it than any new person taking his place. That's what the folks in my district think about it.

Any comment?

Mr. AUBERGER. Yes. Mr. Edwards, please.

Mr. EDWARDS. The banks do on occasion sell property that has been acquired at foreclosure at interest rates that might be less than what their regular borrowing rate is. That doesn't necessarily mean that the sale resulted in a better deal for that purchaser.

Almost without exception, those properties have substantially shorter terms on them, they require conversion of that rate to the regular loan rate after a fixed period of time, generally three years, but some of them will go five. The interest rate an individual has to pay would also influence the price they are willing to pay for the property. You might charge a higher rate and sell the property for a lower value.

I don't think you could conclude that the mere fact that they have a lower interest rate meant that the individual got a better deal than the farmer who previously owned the property.

Mrs. SMITH. Well, I appreciate your comments, though that isn't what the folks think about it.

Mr. EDWARDS. I understand.

Mrs. SMITH. And I have a very grave reservation about it myself. I don't really agree with——

Mr. EDWARDS. I wouldn't pretend to tell you that that is the result in every case, Mrs. Smith.

Mrs. SMITH. Now, given the financial condition of those struggling farmers, particularly those out in my district where the PCA's have gone broke and you have taken away their Class B stock, this is money that they have desperately needed. They are having difficulty getting credit at other institutions.

What is the possibility of your coming across and doing something about the Class B stock?

Mr. AUBERGER. You are talking about O'Neill and so forth?

Mrs. SMITH. Yes.

Mr. AUBERGER. There have been no failed Federal land bank associations and therefore class "B" member-owned stock is retired when the loan is repaid. Class "B" member-owned stock has been frozen in some liquidating production credit associations. In those cases, Federal intermediate credit banks have provided financial resources to PCAs purchasing better-quality loans to prevent those borrowers from having an additional cost of purchasing B stock in the PCA taking over their loan.

Generally, a borrower is required to buy B stock in a System institution as a condition of eligibility and such stock is at risk. The B stock of a liquidating association must be frozen and applied, if necessary, to the debts of the institution. When liquidation is completed, the borrower receives a proportionate payment based on the remaining assets of the liquidated association, if any.

For a time, prior to the merging of the PCAs in the Omaha District and the provision of assistance by other banks in the Farm Credit System, B stock of PCA borrowers in the Omaha District was frozen. However, that stock is no longer frozen, and except for the two associations that have been liquidated, B stock is retired for Omaha District borrowers when their loans are repaid.

Mrs. **Smith**. Are you aware, Mr. Auberger, that you are not going to have any credibility in this generation with those farmers in that area who feel that they have been treated very unfairly?

Mr. **Auberger**. Yes, I think you are right.

Mrs. **Smith**. Now, do you have any comments about the Landowners Protection Act of 1986?

Mr. **Auberger**. I am afraid not; we might submit something later.

Mrs. **Smith**. Would you submit something for the record.

[Clerk's note.—The information was supplied in response to a previous question p. 1001.]

FCA EXAMINATION AUTHORITY

Mrs. **Smith**. The Farm Credit Amendments Act of 1985 mandates that the Farm Credit Administration examine local System associations annually. This had previously been the responsibility of district banks. Why was this change made?

Mr. **Auberger**. This change reflects the recognition by Congress and concern of FCA that the System's supervisory banks had not satisfactorily fulfilled their responsibility to examine local associations and ensure their operating in a safe and sound manner, in compliance with appropriate Federal law and regulation.

FCA's examination of the district banks showed that the district banks failed to meet this crucial task, particularly where financial problems put the bank/association relationship under stress. Section 5.19(a) of the 1985 amendments now requires FCA to examine each System institution, including district banks and local associations, not less than once a year.

The district banks still have supervisory responsibilities, however, in that the Federal intermediate credit banks and production credit associations continue their debtor-creditor relationship, and the Federal land banks maintain an agent relationship with the affiliated Federal land bank associations.

LENDING UNDER STRESS CONDITIONS

Mrs. **Smith**. Farmers and ranchers need the opportunity to continue their operations; this would require that agencies such as yours allow forbearance and restructuring or reamortization of existing loans. What steps are being taken to see that these farmers are receiving this type of treatment?

Mr. **Auberger**. The Farm Credit Administration, through regulation and Federal Farm Credit Board policy, has consistently encouraged System institutions to work with borrowers where they have a reasonable likelihood of working out of financial difficulty and reestablishing a viable farm operation. FCA has emphasized that strong efforts must be placed on appropriate loan servicing that will benefit borrowers who are cooperative and making an honest effort to meet the conditions of their loan contract. Such loan servicing practices include forbearance, restructuring, and reamortization.

Loan servicing policy and practices of System institutions are reviewed through FCA's examination process to ensure safe and sound business practices and that the various provisions of the Farm Credit Act of 1971, as amended, are being carried out. At the same time, FCA does not review individual cases to determine if the servicing decision of the System institution was appropriate. To do so would result in a cumbersome government review process of the decisionmaking of private institutions. Our concern is that System institutions comply with our guidelines and their own policies regarding forbearance.

Mrs. SMITH. If these methods are used, when would the Farm Credit System need the money to accomplish this task?

Mr. AUBERGER. There are, of course, a number of variables affecting how some Federal assistance will be needed. The extent to which System institutions provide forbearance, restructuring, and reamortization to delinquent borrowers can ultimately affect how soon and how much help the System will need from the Federal Government. Initially, however, the impact will be felt in high interest rates to System borrowers, because the System will have to cover the costs of staying with delinquent farmers. If the level of forbearance is so great that interest rates cannot remain competitive, stronger borrowers will find financing for their credit needs outside the System and will leave an even smaller number of solvent borrowers to carry the burden of assisting delinquent borrowers.

FMHA GUARANTEED AND INTEREST RATE BUYDOWN PROGRAMS

Mrs. SMITH. How will FmHA Guaranteed and Interest Rate Buydown programs help you and the farmers affected in ensuring them operating loans and can they be used effectively? Have they been used?

Mr. AUBERGER. These programs have potential value to the lending institutions of the Farm Credit System and to farmers. Both programs are designed to assist lenders in dealing with borrowers who are either not creditworthy or who need to have their loans restructured through writedowns to produce a positive cash-flow.

If the financial institution is strong and the borrower needs only moderate assistance, the Guaranteed and Interest Rate Buydown programs can often be used effectively. However, if the opposite is true, i.e. the financial institution is weak and the borrower needs a great deal of help, these programs do not offer meaningful assistance. A borrower who is severely stressed requires so large a writedown of interest or principal that the lender has no incentive to participate in the FmHA programs. Most lenders will probably encourage these borrowers to use FmHA's direct lending program.

Statistics from FmHA bear out these conclusions. Thus far in fiscal year 1986, FmHA has obligated approximately $600 million in loan guarantees out of a budgeted authority of $1.6 billion. In addition there has been very little participation in the interest rate writedown program.

CAPITAL CORPORATION

Mrs. **Smith**. One final question, what is the status of the Capital Corporation?

Mr. **Auberger**. Final regulations have been published, a Charter has been issued, and directors have been selected. The board of the Capital Corporation met in Kansas City on April 11, 1986, and selected Gene L. Swackhamer as chairman. Ben L. Hauenstein, president of the Farm Credit System Capital Corporation that is being replaced by the Capital Corporation established pursuant to the Farm Credit Amendments Act of 1985, has been asked to fill the position of president of the Capital Corporation on a temporary basis.

The Capital Corporation will be located in Kansas City but is presently operating in offices in Wichita. Inasmuch as a capital corporation existed in the System before the passage of the 1985 amendments, the new Capital Corporation is taking over an existing operation under new regulations that conform its action to the 1985 amendments and is under the control of a board of directors independent of the Farm Credit System.

Mr. **Whitten**. Mr. Natcher.

Mr. **Natcher**. Thank you, Mr. Chairman. Mr. Auberger, as you know, in our bill that we have before the Committee, we have the Foreign Agricultural Service, and, as I recall, when the budget officer presented the overall budget before the Committee, we have an $11- or $12-million reduction in that particular agency. This money, as you know, is used by cooperators from the standpoint of helping us sell and export our agricultural commodities.

Do you know the point that I am talking about in the bill?

Mr. **Auberger**. I do not, Mr. Natcher.

Mr. **Natcher**. Well, the thing I was just wondering about, would it help if in this bill my Chairman had the proper amount placed in the bill, especially as far as this particular agency is concerned, Foreign Agricultural Service, money to help sell and export our commodities? Wouldn't that help the farmer?

What do you think about it?

Mr. **Auberger**. Mr. Natcher, anything that would help the export market for agricultural products we would be in favor of.

Mr. **Natcher**. I think you are exactly right, and, as I recall the amount, it is either an $11- or $12-million reduction that we have before the Committee on this particular service.

Thank you, Mr. Chairman.

Mr. **Whitten**. Mr. Skeen.

Mr. **Skeen**. Thank you, Mr. Chairman. Mr. Auberger, I would like to ask a question. I have a great curiosity on this page in your statement that has the administrative expenses, and so forth. You show an 8-percent Gramm-Rudman cut that is anticipated for FY '87.

And I am just wondering—we don't have any idea what our FY '87 deficit target is going to be, but you already seem to know what your cuts are going to be. Why don't you enlighten me? Is this a more creative accounting, or anticipatory—or do you know something that we don't know?

Mr. **Auberger**. I hope not anyway.

Mr. **Skeen**. And that would probably cover a large area, too.

Mr. **Auberger**. I'm going to ask Mr. Bacon to come in on that, but I think it's based on our assumption of what will happen if the present criteria stay and there is no change made.

Larry?

Mr. **Bacon**. That was from the Congressional Budget Office report, the 8-percent figure.

Mr. **Skeen**. Where did they get it?

Mr. **Bacon**. I don't know.

Mr. **Skeen**. Well, the next question, the $39,420,000 administrative expenses—does this reflect a beefing up of that expense that plans to take care of the anticipated 8-percent cut?

Mr. **Auberger**. No, the figures, the $39 million, were arrived at before we knew about the Gramm-Rudman.

Mr. **Skeen**. Okay, CBO works in mysterious ways sometimes, too—of course, we've known that for some time. It seemed to be a very curious thing that you folks had already anticipated your cut, and I think if you've got that kind of knowledge, you ought to share it with us, because we'd like to know, too. I think they started the hearings today on Gramm-Rudman, the constitutionality, at the Supreme Court—so it ought to be kind of interesting.

Let me ask you also: What's been the effect of the banks and PCA's which did not elect to participate in the consolidation plan among the various institutions this last year? I have a concern. I think two or three of our institutions chose not to join the consolidation plan, and I know they became OFI's—other financial institutions.

Have you been monitoring that area and what's happened to them? I'd appreciate it.

Mr. **Edwards**. There are a number of associations in the Wichita district requested not to go into the merger. They are still operating as separate production credit associations or FLBAs, receiving the same rate and, so far as we know, the same treatment as they did prior to the merger.

Mr. **Skeen**. They are still operating under the original agents of the FLBAs and some of the rest?

Mr. **Edwards**. Yes, sir.

Mr. **Skeen**. Even though they are not members any longer, they—

Mr. **Edwards**. They are still PCAs with the same charter number.

Mr. **Skeen**. So they are not having any trouble getting any money?

Mr. **Edwards**. No, sir.

In fact, the '85 amendments had a provision and I dealt specifically with it.

Mr. **Skeen**. But you still had to honor it?

Mr. **Edwards**. Sure, absolutely.

Mr. **Skeen**. What has happened to their interest rates, do you know?

Mr. **Edwards**. I do not know what their rates specifically are. They are getting the same rate from the Wichita Bank as everybody else does.

Mr. **Skeen**. The cost of money is still the same?

Mr. **Edwards**. Yes, sir.

Mr. **Auberger**. Mr. Skeen?

Mr. **Skeen**. Surely.

Mr. **Auberger**. You may be interested to know that we have a request from the Amarillo Production Credit Association in Texas. They want to liquidate. They have a plan of liquidation whereby they would cease to be a production credit association and, in effect, become an OFI.

Mr. **Skeen**. I see.

Mr. **Auberger**. And, of course, that concerns us because of the impact of an institution to removing itself from the system, and in effect take its capital with it.

If you had a run on that type of thing, you can see what kind of a problem that would be.

Mr. **Skeen**. I see very clearly.

Mr. **Auberger**. We scheduled a series of hearings on this request, before we made a decision.

Mr. **Skeen**. You have no precedence for this?

Mr. **Auberger**. No.

Mr. **Skeen**. This is the first time——

Mr. **Edwards**. I am sorry. Wait a minute.

There is one precedent, the Montana Livestock Production Credit Association, which was kind of a unique association. It had a statewide charter. It applied for voluntary liquidation in mid 1985, and it has liquidated and taken its capital away.

Mr. **Skeen**. It did liquidate?

Mr. **Edwards**. Yes, sir.

Mr. **Skeen**. And took its capital with it?

Mr. **Edwards**. That preceded the 1985 amendments.

Mr. **Skeen**. It is awful when somebody tells you they do not need your association any more. That is kind of the same thing as telling Congress we do not need your help any more, and might have helped a lot somewhere down the line.

I have been real disappointed in the private lenders in their area of cooperation with the plans and so forth here.

What is the trouble? Are they just so concerned about the situation that we have now and scary of any kind of further involvement in this that they are not buying any kind of an interest buydown program? I would like just your opinion on the thing, Mr. Auberger.

Mr. **Auberger**. Well, I am sure, as you know, we had a request from the Wichita District to reduce, to cut their rates. And we did not go along with that because we thought at first they should be trying to take advantage of all the alternative options available to them, differential interest and so forth.

Our concern, of course, is the effect that reductions in interest rates would have on the capital of their institutions and the earnings. So I am going to ask Larry to fill in behind me on that.

Mr. **Edwards**. I think on the lack of participation in the buydowns, it would be speculation. You hear really two stories—three stories.

Mr. **Skeen**. That is what I would like to hear is the stories.

Mr. **Edwards**. That the lender has to take—and in many cases they simply cannot afford to do that—the paperwork involved, that has been reduced substantially and strikes me frankly as not a reason.

And the other is the selectivity of the process, how do you decide Mr. Skeen gets a break and Mrs. Smith does not.

Mr. **Skeen**. Well, that is very easy. Mrs. Smith ought to have the break. [Laughter.]

I have been just a little curious about the thing. Also I know that they have been under tremendous pressure, agricultural banks have been from examiners and the rest because of other incidental problems within an area such as interview the type loans and so forth, and a lack of understanding among a great many examiners to how agriculture operates.

We have grown to a nation that has been so far removed from agricultural operations of this kind that I think that that has been some, because when they have trouble with energy loans then they want to classify all their agricultural loans. And we have had that kind of a problem in our part of the country. So everybody is covering their posteriors as well as they can in this thing.

But I have really been very disappointed in the kind of participation, and I do not think that the agency lenders can cover this problem. And if we do not have the private lenders along with them, this program is not going to work. I do not care what you do.

Mr. **Edwards**. We have sent out letters from FCA encouraging the system institutions to look more aggressively at the programs and to use them where they result in a good business deal for both the borrower and the lending institution.

Mr. **Skeen**. Well, I think we have sugared the bill so many times now that if you were going to catch flies in the trap, why you should have done it by now. And there just seems to be a total rejection. And I think it is this fear, this basic fear that we are going to get in deeper and we cannot get ourselves out of it.

But it has been very disappointing because it shows a total lack of any faith in the future of the questions that we have talked about earlier. How do you improve the income? I do not know how you answer that. I could see the problem with that. Well, it is the same one facing the lenders across the board.

Thank you very much for your answers.

Thank you, Mr. Chairman.

Mr. **Whitten**. Mr. Watkins.

Mr. **Watkins**. Thank you, Mr. Chairman.

I would like to follow up with Mr. Auberger on several of his comments.

One, concerns the Bank of Wichita and your wisdom to not allow the reduction in interest rates at Wichita.

Now, that was one of the questions I was going to ask. Mr. Skeen just asked it. I do not know if Mr. Skeen was as alarmed the same way I was by your answer.

But, Mr. Chairman, I think it goes right back to what your concern is. You said you did not allow the interest reduction because you were concerned about the earnings and the capital of the Wichita system.

Now, the question goes back to what the Chairman has asked. Are you more concerned about the system or trying to save the farmer?

We need to find out. Because if you lose your farmers, you are not going to have a system.

I can't believe you did not allow an interest rate reduction for the farmers in the Wichita system. Mrs. Smith is quite concerned about it. I think we all are concerned about it. When property foreclosure occurs and someone else gets the opportunity to buy that land at a lower interest rate, you know that is difficult and impossible to explain. Now, I have two things here I would like for you to address. You heard me say earlier our concern is first, with the farmers and second, with the safety and soundness of the system.

And we think if you have that in mind, you automatically have the borrower or the farmer in mind. If the system is not healthy, what other alternatives do you have in trying to get the interest rates down? You are worried about keeping the earnings and capital up. Should you come to Congress and ask us to assist you in this way so that there could be the buydown, so to speak, so there could be the lowering of interest rates? You are going to have to come one time or the other. Or are we going to wait until we see hundreds and thousands more of our farmers eroded from agriculture because we are holding the interest rates up high?

Mr. **Auberger.** Well, there are many things that could happen of course. One is the adoption of these other attractive interest rate programs in the Wichita District. We have offered that to them and told them we would approve those.

Mr. **Watkins.** Would you mind listing those?

Mr. **Auberger.** We have first-quarter figures, for example, that shows that the Wichita Land Bank is just right there at bankruptcy. How can you lower interest rates on a bank that, you know, further loss throws it into bankruptcy?

Mr. **Watkins.** What are you offering them to use as a——

Mr. **Auberger.** Differential interest rate programs, fixed rate programs, matched funds. Mr. Edwards can be a little more specific on that if you would like.

Mr. **Watkins.** I would like to have some specifics on it because I do not think any of my farmers have heard too much about it.

Mr. **Edwards.** Those programs are already available and have been for some time. We think some additional flexibility of them which Wichita has not elected to use. It would allow them to——

Mr. **Watkins.** Should we have some change in the administration in Wichita?

Mr. **Edwards.** I am not ready to say that, no.

But there is flexibility available to the Wichita Bank that it has not used.

One of Mr. Auberger's points, the Wichita Bank is, except for the assistance it is receiving from the rest of the system, is stock impaired. And every basis point they lower the rate makes that impairment worse. They are in serious financial difficulty.

Mr. **Watkins.** Is there any looking at a lowering of interest rates to assist in the cash flow and a balloon on the end? Is there a financing structure of that nature being considered?

Mr. **Edwards.** In a large percentage of the cases with farmers, I suspect, Mr. Watkins, that is not really an option. Because the values of that collateral base have fallen so far that the——

Mr. **Watkins.** All right, let's take it one step further.

What are you going to do then if you do not have the collateral in trying to keep the loan? Automatically shift them over to the Capital Corporation and inventory them?

Mr. **Edwards**. No, sir. First of all, the Capital Corporation can buy only those loans that are non-performing. So, in a loan case where the payments are being met, the loan is performing, it does not make any difference——

Mr. **Watkins**. But you just indicated to me there are such a large number of cases that could not go with this type of financing structure.

Then what kind of financing structure are they going to use?

Mr. **Edwards**. In the farmers that are most distressed. There is simply not room for that.

Mr. **Watkins**. Then they are to automatically go to the holding pen, so to speak.

Mr. **Edwards**. Not of the Capital Corporation. That itself does not mean they go to foreclosure.

The Capital Corporation has all of the authority it needs to do workouts where that seems to be the thing to do from a business standpoint or the institution and borrowing.

Foreclosure would be pursued as a last alternative.

Mr. **Watkins**. How many do you foresee going to the Capital Corporation this year? Capital Credit Corporation.

Mr. **Edwards**. How many loans?

Mr. **Watkins**. How many borrowers would be shifted to that entity?

Mr. **Edwards**. I can give you some estimates for the record. I do not have specific numbers on that.

Mr. **Watkins**. It is in effect now. I think you were having trouble with some of the boards a little earlier.

How many do you have over there now?

Mr. **Edwards**. How many loans in there? There are about a hundred and—the Capital Corporation purchased $130 million from Spokane and $140 million from Omaha. Those are the only two districts from which it has purchased loans.

Mr. **Watkins**. All right.

What have you done with them in the Capital Credit Corporation at this point? Could you give me an idea?

Mr. **Edwards**. In the Omaha situation, we have not done much because the transfer of loans took place in February. In Spokane, that $130 million has been reduced to $65 million to restructurings or refinancings or foreclosures. I do not have a breakdown on that.

Mr. **Watkins**. Would you mind providing for the record what you have done with these that have gone to the Capital Credit Corporation, what the Capital Credit Corporation has done in working them out? What kind of buydown and refinancing has occurred?

Let me ask you a question. What would you do if someone came to you and said that they were wanting to purchase at the appraised values these particular loans, many of them in that Capital Credit Corporation and at the appraised value which you know is a great deal of loss in the collateral. I would say that they could find in nearly every case, wanting you to take that loss.

What would you do in that case? I understand there are groups that are willing to come and do that, or want to try to do that.

Mr. Edwards. If the assets are properly recorded on the books of the institutions, the loss has already been taken. So, selling them at their appraised value would not result in any additional loss to the system. And I would say sell them just as fast as you can sell them.

Mr. Watkins. What you are telling me and this Committee is that you are willing to sell it at what the appraised value is and take the entire loss.

Mr. Edwards. Selling the non-performing loans at their appraised value? Yes, sir.

Mr. Watkins. It could be that we are to where we need to liquidate the Farm Credit Administration completely. I think you are taking the easy way out in dealing with the entire situation.

I would like to say to my Chairman and the Committee that I can foresee many more of our farmers completely losing everything under this type of structure, with financing people coming in and purchasing the land leaving the family farmers left with nothing.

That disappoints me a great deal if what we are going to do is sell it off at its appraised value after we foreclose them.

Mr. Auberger. Well, you recognize, Mr. Watkins, these will be decisions of the Capital Corporation as to what they do with these non-performing loans.

Mr. Watkins. Yes, and we are further removed from having anything to say about the loans.

Mr. Auberger. Except that the intent of the Congress, as we believe, is pretty clear in the legislation as to what you wanted the Capital Corporation to do.

Mr. Watkins. I would like to ask about the Amarillo banks.

Amarillo wants to withdraw from the system. You do not want that to occur?

Mr. Auberger. Yes. Because again, the whole idea is, you know, combining, utilizing the capital of the system, the resources that are available to meet the needs of the parts of the system that are in distress and share the capital. And if you have institutions that had the option of withdrawing from the plan, if you will, how can you construct and plan.

Mr. Watkins. You are going to refuse to let the system out but you are going to liquidate many of the other portfolios. Therefore you are losing your structure.

Mr. Edwards. You are tying that, I think, to the preceding question about the sale of property by the Capital Corporation.

First of all, the Capital Corporation does not sell loans. It would only sell the property it had acquired as a result of the foreclosure act.

Mr. Watkins. But you are losing loans out of your system, right?

Mr. Edwards. The system is losing loans, yes, for a combination of causes.

Mr. Watkins. That is exactly what would happen to Amarillo if they moved their system?

Mr. Edwards. No, sir.

In the case of Amarillo, what they take out with them is the entire capital structure of the institution, that portion, including a portion of it that is available for assessment through the Capital Corporation.

When a borrower pays off his loan, he might take his stock with him, but he does not take the balance of the capital structure of the institution.

Mr. **Watkins**. Only his stock out of it?

Mr. **Edwards**. That is right.

Mr. **Watkins**. What is being done to help the borrower or the farmer and I am not talking about what is being done to save the system? I will look forward to your providing it to me.

You said at Wichita, the margin is small, and I do not want to put words in your mouth, but on the verge of bankruptcy.

What is the possibility of salvaging Wichita?

Mr. **Auberger**. Well, the next step, of course, is for them to go to the Capital Corporation and look into the matter of financial assistance.

Mr. **Edwards**. With both Wichita and a couple of other districts, Mr. Watkins.

Mr. **Watkins**. Have you heard when Wichita would probably go to the Capital Corporation?

Mr. **Edwards**. With both Wichita, Omaha and a couple of other districts that are having the most severe stress. We started as early as December getting those districts prepared to sell loans to the Capital Corporation, doing the paperwork that is necessary to be sure that the documents are in order so that when they transfer the loan to the Capital Corporation, they transferred good title. So that process started well before the Capital Corporation was even chartered.

There is a very clear process laid out in the regulations for the Wichita District to apply for financial assistance through the Capital Corporation. Their financial condition is such that they are not going to have any choice whether to do that, and do so at an early date.

I would expect to see that start before——

Mr. **Watkins**. Will the Capital Credit Corporation be able to handle all that or will they need to go to the Feds?

Mr. **Edwards**. The Capital Corporation will be able to handle Wichita, yes, sir.

Mr. **Auberger**. The key point now though is the Capital Corporation will be looking to the rest of the system for its help first. They will not call for Federal financial assistance until some point down the road when it and the Farm Credit Administration can certify that the system has used its own resources first.

INTEREST RATES

Mr. **Watkins**. It is my understanding that the FCA board has rejected a request for the Wichita district for a reduction in interest rates. This would, if approved, have made the land banks and production credit associations more competitive with other lending sources in the area, as well as making the cost of credit more reasonable for borrowers.

Can you explain to me why the FCA board refused a request of approximately a half percent reduction for land bank loans and slightly more than that in the end for the production credit associations?

Mr. **Auberger**. On March 28, FCA informed Mr. Jack Perry, president of the Farm Credit Banks of Wichita, that it was not approving the district's request to lower Federal land bank (FLB) rates to borrowers and Federal intermediate credit bank (FICB) rates to production credit associations (PCAs). Based on a thorough analysis of the Wichita District's proposals, FCA determined that the financial condition of these institutions and the quality of their loan portfolios could not support such a reduction.

We are encouraging System banks to use available lending programs to provide borrowers with attractive loans. This includes modifying existing variable and fixed interest rate programs to stabilize the decline in loan volume.

The Farm Credit Act of 1971, as amended, authorizes System institutions to offer programs of differential interest rates to their member-borrowers. Last fall, the Wichita FLB adopted a multiple-tier interest rate pricing program for variable and fixed-rate farm real estate loans. It is FCA's view that instead of lowering all rates, the FLB should more aggressively market the attractive rates it currently offers under its differential program.

Rather than grant a specific reduction in the rate the Wichita FICB charges PCAs for loanable funds, FCA has authorized it to charge a variable interest rate that is at least 140 basis points above its average cost of total debt. This would allow the FICB to pass through projected decreases in its funding costs to the PCAs and their member-borrowers. The 140-point spread is in line with the FICB's normal operating costs, reserves, and other expenses. A more market-oriented approach also allows for the Wichita District to share the potential benefits of matched-funding and term financing with its borrowers.

Mr. **Watkins**. Does this indicate that the FCA, in spite of its historic role as an arm's-length regulator, is going to become more and more involved in the day to day operation of the land bank and production credit associations? What other conclusions are we expected to draw other than that?

Mr. **Auberger**. FCA's current approval requirement on changes in System interest rate programs is a temporary requirement that will be in place until FCA issues capital adequacy regulations in accordance with the Farm Credit Amendments Act of 1985.

Mr. **Watkins**. One more on interest rates, if the system is to remain competitive with other lending institutions and retain solvent borrowers we must see a corresponding drop in interest rates. This in turn will help the borrowers as well as the system.

Specifically, what is being done to help the borrower or the farmer and I'm not talking about what is being done to save the system? What good is a system without borrowers to maintain its operations?

Mr. **Auberger**. The Farm Credit System is cooperatively owned by its borrowers of varying credit quality. FCA has recognized the need for the System to retain high-quality borrowers who can obtain more favorable lending rates from competitive institutions and is actively working with the System to develop differentially priced lending programs. These programs will offer lower lending rates to the System's higher quality loan risk borrowers.

Mr. WATKINS. What is the status of the various districts around the country?

Mr. AUBERGER. I will supply the Committee with a report that shows System bank interest rates as of April 1, 1986. Generally, with respect to short-term lending, PCA loan rates are competitive with commercial bank rates. With respect to real estate loans, commercial bank rates are well below Federal land bank rates. However, commercial lenders make very few real estate loans. What the interest rate on long-term real estate loans means is that those banks that are still making agricultural real estate loans are in a position to pick off the lowest risk borrowers from System institutions.

The competitive advantage that commercial banks have at this time indicates that differential interest rates are an important tool for System institutions to employ. Differential interest rates are authorized by the Farm Credit Act of 1971, as amended, and programs for their use by System banks have been approved by FCA.

[The information follows:]

FEDERAL LAND BANKS

Interest Rates and Loan Fees Charged on New Loans as of April 1, 1986

District	Farm	Rural Home	Farm Related Business	New Loan Fees (a)	Default Rate (b)
Springfield (c)	12.00%	12.00% 12.75% 13.50%	13.00%	No fees	1%
Baltimore	11.75%	12.00%	12.00%	No fees	2%
Columbia	12.00%	12.00%	12.00%	.5 to 1.75%	2%
Louisville	12.75%	12.75%	12.75%	No fees	2%
Jackson	12.25%	12.50%	12.50%	2%	4%
St. Louis Base Rate	11.00% 12.50% 13.25%	11.00% 12.50% 13.25%	11.00% 12.50% 13.25%	.5 to 1%	1%
St. Paul	12.50%	12.50%	12.75%	1 to 4%	2%
Omaha	12.75%	12.75%	12.75%	0 to 2%	2%
Wichita Base Rate	11.50% 11.75% 12.50% 13.50% 13.75%	11.50% 11.75% 12.50% 13.50% 13.75%	11.50% 11.75% 12.50% 13.50% 12.75%	No fees	2%
Texas	11.50%	12.00%	12.00%	No fees	4%
Sacramento	12.25%	12.75%	12.25%	1 to 2%	4%
Spokane	12.25%	12.25%	13.25%	No fees	2%

(a) Because loan fees within several districts may vary depending on loan type, loan size, and other factors, a range is specified where appropriate.

(b) Percentage over billing rate where state usury laws permit.

(c) As assigned under the approved differential interest rate program.

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FEDERAL INTERMEDIATE CREDIT BANKS

Interest Rates Charged as of April 1, 1986

Springfield (b)	1.30% Spread	9.90%	
Baltimore	.55% Spread	9.50%	
Columbia	10.50% Rate	10.50%	
Louisville	.75% Spread	10.07%	
Jackson	.50% Spread	9.75%	
St. Louis	.80% Spread	9.70%	
St. Paul	.94% Spread	10.60%	
Omaha	1.50% Spread	10.95%	
Wichita	1.40% Spread	9.00%	
		9.50%	
		10.60%	Base Rate
Texas	9.25% Rate	9.25%	
Sacramento	1.27% Spread	10.40%	
Spokane	1.00% Spread	10.35%	

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BANKS FOR COOPERATIVES

Interest Rates Charged as of April 1, 1986

District	Seasonal (a)	Term
Springfield (b)	8.00% 8.50% 9.00%	10.50% 11.00% 11.50%
Baltimore	9.00%	11.00%
Columbia	9.00%	11.50%
Louisville	9.25%	11.50%
Jackson	9.75%	9.75%
St. Louis	9.50%	10.75%
St. Paul	9.25%	11.50%
Omaha	9.60% 10.10% 10.60% 11.10%	11.40% 11.90% 12.40% 12.90%
Wichita	9.75%	10.00%
Texas	9.50%	11.00%
Sacramento	9.75%	10.50%
Spokane	10.25%	11.25%
Central Bank (c)	---	---

(a) Rate also applies to seasonal loans secured by commodities.

(b) As assigned under the approved differential interest rate program.

(c) Will follow district rate on participations.

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VOLUNTARY LIQUIDATION AMARILLO PCA

Mr. **Watkins**. This conclusion is further borne out by the fact that the Amarillo associations, in attempting to withdraw from the System, are faced with a series of public hearings, including one scheduled for Washington in June, if I'm not mistaken. Does not the law and the regulations permit an association to withdraw from the System if the stockholders and borrowers, which are one and the same, vote to do so?

Mr. **Auberger**. Voluntary liquidation is governed by section 4.12 of the Farm Credit Act of 1971, as amended, which provides that no institution of the Farm Credit System (System) shall voluntary liquidate without the consent of the Farm Credit Administration (FCA) and, with such consent, may liquidate only in accordance with FCA Regulations.

The FCA has considered the plan of voluntary liquidation submitted by the Amarillo Production Credit Association (Amarillo) and has determined that agency action on the plan could have significant implications for the Tenth Farm Credit District, the System as a whole, System borrowers, investors, and the public generally. In addition, the implications of such a withdrawal in terms of the Farm Credit Amendments Act of 1985 and the Farm Credit System Capital Corporation must be evaluated. In order to ensure a complete airing of the related issues and a complete factual basis upon which an agency decision can be made, the FCA has ordered a public hearing on the Amarillo request for FCA approval of voluntary liquidation.

Following completion of the hearing, consideration will be given to relevant factors in deciding whether to approve or deny the Amarillo plan of voluntary liquidation.

Mr. **Watkins**. Is there any indication of other associations that are planning to follow the action taken by the Amarillo association?

Mr. **Auberger**. The FCA has no information indicating whether other production credit associations are considering or planning to follow the proposed actions by the Amarillo Production Credit Association.

ALLOWANCE FOR LOSSES

Mr. **Watkins**. Will funds transferred at the end of last year to the reserve accounts for loan losses be adequate to take care of any losses that might occur this year? At what point will reserve accounts not take care of loan losses and an infusion of capital might be needed? In other words how much can we stand to lose before you would have to come to Congress?

Mr. **Auberger**. The System's allowance for loan losses determined in accordance with Generally Accepted Accounting Principles totaled $3.19 billion as of yearend 1985. FCA believes the allowance for losses established at the end of 1985 is sufficient to cover anticipated losses that may exist in the System's loan portfolio. The allowances for losses account will be continuously reviewed during 1986 and adjustments made to provide for any additional losses that may arise.

PROFIT AND LOSS PROJECTION

Mr. WATKINS. What is the projection for the profit or loss picture for the System this year?

Mr. AUBERGER. We expect the System to show a net operating loss on a combined basis in 1986. The System had a combined total of nearly $9.4 billion in nonperforming loans as of December 31, 1985, of which $5.3 billion was in nonaccrual status.

Financial reports suggest that future loan losses of $3.2 billion or more over a 2 or 3-year period are inherent in the System's loan portfolio.

SYSTEM SALARIES

Mr. WATKINS. Have salaries of management in each System been reduced?

Mr. AUBERGER. The combined salaries paid to the chief executive officers (CEOs) of the Farm Credit banks in 1985 totaled $2,415,520. The total in 1986 will be $2,080,140, a decrease of 14 percent. The number of CEOs also declined because of consolidation of bank management of district banks, so the average salary will increase 6 percent. However, as the number of CEOs declines, the scope of their responsibilities is increased.

SALE OF WICHITA FARM CREDIT SYSTEM BUILDING

Mr. WATKINS. Has action been completed on the sale of the Wichita Farm Credit System building? Are they now leasing?

Mr. AUBERGER. Mr. Watkins, System institutions no longer have to obtain FCA approval for purchase or sale of office facilities. Nevertheless, it is our understanding that the Wichita District Board has decided not to sell their building.

CAPITAL CORPORATION

Mr. WATKINS. Provide a review of what the Capital Corporation has done with loans it has purchased from Omaha and Spokane. What type of restructuring has occurred?

Mr. AUBERGER. By restructuring, we understand you to mean changes in the loan terms (including reamortizations, altered repayment schedules, interest rate relief, or changes from variable to fixed rate lending) as well as refinancing activity, which may or may not include some compromise of indebtedness. In both districts, refinancings characterize most Capital Corporation restructurings, as other alternatives have already been explored by the originating lender.

The Capital Corporation took final possession of loans from the Omaha District on January 24 of this year, so experience with that portfolio is rather brief. The Omaha portfolio had an original face value of $208 million. Average loan size was around $163,000. The district sold these loans to the Capital Corporation for $133 million, recognizing a $75-million loss. The Capital Corporation reports that with rare exceptions, the obligors on these loans have significant negative net worth positions, a fact that has caused the originating institutions to take significant chargeoffs. With regard to restructuring activity, the Capital Corporation reports that it has collected approximately $15 million of these loans. About half of this value is the result of refinancing activity, which continues at a rate of about $750,000 to $1 million per week. Settlements generally entail refinancing a portion or all of an obligation with non-System commercial lenders, often in conjunction with FmHA direct loan authorities or guarantees.

In the Spokane District, the Capital Corporation took a 90 percent participation in loans and 99 percent interest in FICB direct loans to assocations in process of liquidation with a face value of $197 million and a book value of $136 million at the time of purchase, June 1, 1985. Average loan size was approximately $165,000. The Capital Corporation reports that current portfolio book value is $66 million, but $20 million has been added to loan loss reserves to cover additional expected losses. With regard to restructuring activity, of the approximately $70 million collected to date, about $35 million was collected as the result of refinancing activity, primarily in conjunction with commercial banks using FmHA direct loan authorities or guarantees.

Mr. WATKINS. Thank you, Mr. Chairman.

Mr. WHITTEN. Mr. Myers.

Mr. MYERS. Thank you, Mr. Chairman. And I apologize to the witnesses and my colleagues on the Committee for not being here earlier. We all serve on many committees around here, and another committee that is very important, I just did not have any choice but to be there. We had some issues that affected the future of some members. So I had to be there at this particular meeting. So I apologize.

I have many questions but I will have to read the record, I think, because I do not want to use the time of the Committee to ask questions that have already been asked.

I have some concerns generally about the farm credit system, and even the revised system, many of them. I think it is a far cry from what we probably need.

Being a country banker for many years myself, I know I bought and sold farm loans for years both ways, bought some from the Farmers Home Administration and for real estate mortgages, and I have sold some too from time to time. So the procedure is practice. It is the intent, I guess, is what Mr. Watkins is talking about, what will happen in the future to some of these loans.

I think we all can resolve that by making the farm more productive, making our ability to make a living on a farm, and we can work our way out of it that way rather than what happens to these loans. I think this is the direction really, Wes, we need to go is to shore up the economy to where our farmers can make a living and they can pay it off, regardless who they pay, whether it is to you people or to a commercial bank or to an insurance company. As long as we can get the job done to pay them off, I think that is the direction we need to work toward instead of just extending more credit, which has been in the past unfortunately what we have looked to as keeping farmers in business through credit instead of through cash flow and profits. And we need to do that as rapidly, and we all need to work in that direction and work together.

I only have one general question which maybe has already been answered and it can be answered yes or no.

Have you made the appointments yet to the Board members that are going to serve on this Board for the new credit system?

Mr. AUBERGER. The Capital Corporation?

Mr. MYERS. Yes.

Mr. AUBERGER. Yes.

Mr. MYERS. They have been made?

Mr. AUBERGER. Yes.

Mr. SKEEN. Who are they?

Mr. MYERS. Do you have it some place in here, the numbers and their background?

Mr. AUBERGER. I do not think it is in there but I can tell you who they are.

From the system, the elected directors are Leo Almendinger from the Omaha District; John St. John who is from the Columbia District——

Mr. MYERS. Columbia where?

Mr. AUBERGER. Columbia, South Carolina.

Mr. MYERS. South Carolina. Okay.

Mr. AUBERGER. But he is not a district Board member. He is on the Central Bank Board and the Funding Corporation Board I believe.

And Gene Swackhamer is the third one. Gene is the President of the Farm Credit Banks of Baltimore. And incidentally Gene is the Chairman.

The two Farm Credit Administration directors, appointed directors, are Mark Wilkinson, no relation, and Francis Ferguson. Both are retired insurance executives, very, very qualified. We are very excited about them.

Mr. MYERS. Where are they from?

Mr. AUBERGER. Mr. Wilkinson was from the Prudential Agriculture Group in New Jersey, I think.

Mr. MYERS. New Jersey.

Mr. AUBERGER. And Mr. Ferguson is from Northwest Mutual Life Insurance Company up in Milwaukee.

And as I said earlier—maybe you were not here—that the Board has held its first meeting and we are looking for good things from these people.

Mr. MYERS. Okay.

Well, I thank you very much. And again I apologize for not being able to attend the entire meeting.

Thank you, Mr. Chairman.

Mr. WHITTEN. May I say that, I wonder why, if you are having a desperate situation you say, that you opened new field offices in Syracuse, New York; Atlanta, Georgia; Louisville, Kentucky; Omaha, Nebraska; Oklahoma City, Oklahoma; Dallas, Texas; Sacramento, California.

Now, in my area, there are complaints that your assessment is too high. You are setting up your auditors in Atlanta, and they have to travel back and forth to Jackson, Mississippi. Who makes these decisions? It looks to me like as desperate as you are, that you are increasing your overhead, increasing your demands on the members and on the districts?

Now, I do not know how far we can go. I know I had to take the floor along with others to get any Congressional review when they passed the Farm Credit Act. Looking at the location for your new office, it looks as you might have had something other than the farmer in mind in the selection of some of these things.

When you are desperate and begging Congress to keep you going, why are you not doing anything to help the fellow that supports you—the farmer? Why should we go along with that?

As I recall, your salaries are far in excess of government employees, including folks at a high level in the Federal Government. I would like a list of how much you have increased the assessment in the last three years, to each district.

[The information follows:]

District	Fiscal year—		
	1983 assessments	1984 assessments	1985 assessments
Springfield	$603,995.19	$704,159.37	$711,365.94
Baltimore	718,541.84	860,740.08	867,840.08
Columbia	1,475,699.26	1,650,329.67	1,587,593.85
Louisville	1,571,945.28	1,738,574.25	1,611,260.58
Jackson	959,563.29	1,089,944.21	1,050,643.88
St. Louis	1,354,985.46	1,541,401.54	1,469,797.56
St. Paul	2,330,420.60	2,762,694.13	2,703,622.80
Omaha	1,814,989.57	2,100,487.40	1,869,645.59
Wichita	1,349,019.37	1,554,110.85	1,474,496.44
Texas	921,988.56	1,133,471.51	1,192,366.02
Sacramento	1,683,602.62	2,069,354.62	2,148,185.66
Spokane	1,214,955.88	1,353,183.41	1,246,218.47
Central Bank for Cooperatives	1,356,558.87	1,715,143.00	1,692,405.84
Total	17,356,265.79	20,273,594.04	19,625,442.71

Now, these new offices that you are going to open, are you going to have a crying room for people to get on their knees or what are you going to do if you need a new, what is it, $7 million you are spending for those offices?

Mr. AUBERGER. Well——

Mr. WHITTEN. Where are you going to get that money?

Mr. AUBERGER. Well, the supplemental budget for '86, which was $9.5 million has been approved.

And we are requesting an increase in the '87 budget. And I think you recall, Mr. Chairman, that in the Amendments Act of '85, one of the principal features of that was a direction in effect to the agency to increase and make more effective its examination function.

Mr. WHITTEN. Be more effective.

Mr. AUBERGER. And that is what we are doing. We are——

Mr. WHITTEN. What do you mean by the word "effective"?

Mr. AUBERGER. We did not do examinations before. In other words, it was the banks that made the credit examinations of the local associations. Each FICB and each land bank sent examiners out to the local associations to examine——

Mr. WHITTEN. Who directed you to come up with this outside audit or outside checking?

Mr. AUBERGER. The requirement that the banks have a CPA audit?

Mr. WHITTEN. Yes.

Mr. AUBERGER. That is in the statute.

Mr. WHITTEN. Is that by Congressional action?

Mr. AUBERGER. Yes, sir.

Mr. WHITTEN. And did it provide any money or provide that you assess your members?

Mr. AUBERGER. Through the assessment method.

Mr. WHITTEN. What progress have you made toward building these new offices? I presume you are building them as against renting and leasing.

Mr. EDWARDS. All of the offices, Mr. Chairman, are leased offices.

Mr. WATKINS. Mr. Chairman.

Mr. WHITTEN. Mr. Watkins.

Mr. WATKINS. One of those is in Oklahoma City. Could you describe what personnel you have there?

Mr. EDWARDS. All of the offices, as the Chairman mentioned, are offices to house the examiners who will be doing the examination of Production Credit Association and Federal Land Bank Associations. The '85 amendments require that the agency reassume that responsibility. And there are about 274 positions nationally devoted to that.

The Oklahoma City office would have a staff of about 20, I believe, Mr. Watkins, to cover the States in the Wichita District, the examiners for associations.

Mr. WATKINS. That is a rural area in Oklahoma City?

Mr. EDWARDS. Those cities, all of them were selected because they provide the best air transportation or the closest driving distance to the largest number of institutions.

Mr. WHITTEN. We have always supported the Farm Credit System—but we have been disappointed in recent years about the overall farm situation. But as I pointed out to the President in 1982, we have had the American farmer financing our foreign policy. If we wanted to punish Russia, we held our commodities off world markets. If we wanted to get along with New Zealand, we let them have the dairy market. The government has just about broke the agricultural industry. We had the head of Farmers Home Administration, Mr. Clark, here, and his testimony was that his agency just simply could not pick up the slack from folks that you had turned loose. I presume that is true.

We are glad to work with you the best we can, but we have got to review this assessment business. We read in the paper that interest rates are coming down.

How many foreclosures did you have over the United States?

Mr. AUBERGER. May I go back to the assessments just a minute?

I would like to point out that a review of the assessments for the past do not reflect the assessments for the increases. In other words, they are yet to come.

Mr. WHITTEN. If we are going to work out of the terrible agriculture situation, you had better help us get some money to the farm- He cannot make ends meet, he does not need a supervisor.

Mr. Myers.

Mr. MYERS. Well, thank you, Mr. Chairman.

You were talking about location of some of the Federal Land Bank District Offices and so forth. How about the little local offices around over the country, who decides where those are located?

The point I am bringing up here reminded me of this. About five years ago in my hometown, they built a real nice office. A fellow moved to town to run the office, and about a year ago, he closed that one up, and moved 25 miles closer to another main office of the Federal Land Bank. Now, the people in my community, which is a farming center for three country areas, have to drive at least 25 miles where he transferred to, and they can drive another 25 and go to another office. And the fellow that runs it still has to drive 25 miles to go to work.

How did you decide—I think maybe consolidate—but how did you decide to consolidate two close together and leave another one a long distance away? Who makes those kinds of decisions? You lost a lot of faith with me when you started reorganizing like that.

Consolidation I agree with. But to move two close together and then leave a bigger distance, it does not make any sense.

I am a little old commercial banker, and if I did that, hell, they would bank some place else. We do not want that to happen.

Mr. EDWARDS. Decisions on where offices are located are made first by the Association Board of Directors, and they are subject to the approval of the District Bank.

It is to be based on volume of business and whether or not that office is an economic office with the ability to pay its overhead.

Mr. MYERS. Well, there are none of them economic offices when you come to that. So you would not have any of them open if that would be the case. They ought to be in service for the community for the people that use the service and make it convenient. Of course, they can drive, yes. But to me, it does not make any sense to move within 25 miles of each others, and leave a big distance so that the folks have the same size office, both of them. One of them should be closed, no question. But it does not make any sense. I guess we will correct that in the future one way or another.

Mr. WHITTEN. I wish you would put in the record rates that you borrow money by your debentures and sell them. I would like to show their change, if any, and the interest rates you pay and the interest rates you charge.

Further, in the steps that you have made to let those who already owe attempt to refinance their obligations, have you made any effort to scale the interest rates due down to where a man can live with it?

Mr. AUBERGER. We have approved a lot of changes in interest rates, yes.

Mr. WHITTEN. Can you give us a record of how much of that you have done and what percentage you reduced?

[The information follows:]

The following table summarizes the average cost of each System's portfolio and the average interest rate charged to borrowers before stock purchase requirements for the last 4 years.

[In percent]

	FLB		FICB avg. cost of bonds	PCA avg. lending rage	BC	
	Avg. cost of bonds	Avg. lending rate			Avg. cost of bonds	Avg. lending rate
January 1982	11.65	12.17	14.07	15.26	13.99	15.56
April 1982	11.91	12.28	13.63	14.84	13.35	14.57
July 1982	11.96	12.35	13.19	14.42	13.10	14.59
October 1982	11.98	12.29	12.51	13.80	12.32	13.64
January 1983	11.82	11.90	11.17	12.83	10.97	11.62
April 1983	11.77	11.70	10.09	11.77	10.40	10.73
July 1983	11.68	11.49	9.79	11.37	10.39	9.98
October 1983	11.73	11.44	10.08	11.82	10.63	10.11
January 1984	11.83	11.47	10.31	12.1	10.70	10.39
April 1984	11.85	11.60	10.43	12.1	10.74	
July 1984	11.94	11.80	10.85	12.6	11.15	
October 1984	11.96	12.00	11.28	13.1	11.47	
January 1985	11.90	12.15	10.98	12.9	11.12	
April 1985	11.68	12.10	10.37	12.5	10.77	
July 1985	11.63	12.35	9.71	12.15	10.56	
October 1985	11.57	12.40	9.41	12	10.48	
January 1986	11.46	12.29	9.44	12.3	10.52	
April 1986	11.32	12.25	9.42	(1)	10.20	

[1] Not available.

DEBT REFINANCING

Data from reports for the quarter ended March 31, when much of the loan refinancing would be done, are just now being received and are not yet summarized. Yearend loan performance data generally showed an increase in the volume of nonperforming loans—the categories most likely to call for refinancing. On the other hand, Commodity Credit Corporation deficiency payments and crop loans are up markedly, as was FmHA direct lending during 1985. These sources may have provided funding for farmers that would otherwise have come through refinancing existing loans. In addition, significant chargeoffs by all commercial lenders during 1985 removed from the books some of the distressed loans that could no longer be refinanced, and record levels of provision for future losses suggest that additional amounts are no longer refinanceable except through workouts.

Mr. **WHITTEN**. Thank you for your appearance.

Mr. **AUBERGER**. Thank you.

Kenneth J. Auberger

Acting Chairman
Farm Credit Administration Board

Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Kenneth J. Auberger serves as Acting Chairman of the Farm Credit Administration Board and performs the functions of the Board as prescribed by the Farm Credit Amendments Act of 1985. Mr. Auberger will serve in this capacity until the President's nominee for Chairman is confirmed by the Senate.

The Farm Credit Administration is an independent federal agency responsible for the regulation and examination of the Farm Credit System, a nationwide network of agricultural lending institutions and their service organizations.

Mr. Auberger began his career with FCA in April 1964 as assistant chief examiner. He was appointed chief examiner in January 1966 and assumed deputy governor rank in November 1975. In June 1982, he was named deputy governor and chief of staff and held this position until December 1984, when he was named executive assistant to the governor. He also served as secretary to the Federal Farm Credit Board from August 1978 until December 1985. He was appointed to his present position on March 29, 1986.

Before joining the Farm Credit Administration, Mr. Auberger served 12 years with the U.S. General Accounting Office in Washington, D.C. He was supervisory accountant with this office from 1961 to 1964, and was associated with financial and management audits of the Rural Electrification Administration, Farmers Home Administration, Farmer Cooperative Service, St. Lawrence Seaway Development Corporation, Veterans Administration and Corps of Engineers (Civil Functions). Prior to entering government service, he was an accountant for Carl D. Thomy & Company in Rochester, New York, from 1950 to 1951.

After receiving a bachelor of business administration degree from Siena College in Loudonville, New York, Mr. Auberger earned a doctorate of law degree and a master of business administration degree from American University in Washington, D.C.

Mr. Auberger is a member of the American Institute of Certified Public Accountants, the Maryland Institute of Certified Public Accountants, and the District of Columbia Bar. He has been admitted to practice before the U.S. District Court for the District of Columbia, the U.S. Court of Appeals for the District of Columbia, and the U.S. Supreme Court.

Mr. Auberger is a member of the graduate school faculty of American University as a part-time professional lecturer. He served in the U.S. Navy during World War II and the Korean War. A native of Rochester, New York, Mr. Auberger and his wife, Patricia, reside in Potomac, Maryland.

Larry W. Edwards
Deputy Governor and Chief Examiner
Office of Examination and Supervision

Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Larry W. Edwards, as deputy governor and chief examiner for the Farm Credit Administration, is responsible for the supervision and examination of all credit, finance and operations of the banks, associations and other offices of the Farm Credit System.

The Farm Credit Administration is an independent federal agency responsible for the regulation, examination, and supervision of the Farm Credit System, a nationwide network of agricultural lending institutions and their service organizations.

Mr. Edwards came to FCA in February 1965 from the Federal Bureau of Investigation in Washington, D.C., where he was employed as a fingerprint technician. Before appointment to his present position in September 1984, he served in various capacities within FCA including accounting clerk, accountant, fiscal and operations specialist, loan specialist, credit specialist, credit and operations specialist, assistant director of the Supervisory Division, associate deputy governor for supervision, deputy governor for supervision and deputy governor for Region II in the Office of Examination and Supervision.

Mr. Edwards attended Auburn University and earned an associate of arts degree in accounting from Strayer College in Washington, D.C. His work has been recognized on three occasions by the agency. In 1974, he received FCA's Meritorious Service Award and in 1980, a Special Achievement Award. He was honored with the agency's highest award, the Governor's Award, in 1981.

A native of Selma, Alabama, Mr. Edwards and his wife, Toga, reside in Alexandria, Virginia, with their son and daughter.

Frederick R. Medero

General Counsel
Office of General Counsel

Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Frederick R. Medero was named General Counsel of the Farm Credit Administration on June 2, 1980. Under his direction, the Office of General Counsel performs legal services for the Federal Farm Credit Board, the Governor of the Farm Credit Administration and members of his staff, and consults with and coordinates work of attorneys employed by the banks of the Farm Credit System.

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Before joining FCA, Mr. Medero was director of the Securities and Corporate Practices Disclosure Division of the Office of the Comptroller of the Currency in Washington, D.C. His responsibilities included advising the comptroller, the chief counsel, and senior officials on matters relating to the Securities and Exchange Act, the Change in Bank Control Act, the Glass-Steagal Act, trust department operations, and debenture and stock offerings. He also coordinated the division's activities with the Comptroller of the Currency's regional offices.

Before joining the Office of the Comptroller of the Currency in 1976, Mr. Medero was a senior associate with a law firm in Louisville, Kentucky, where he represented financial institutions in Securities and Exchange Commission and federal bank agency matters, mergers, branching, tax qualifications, and franchising. From 1970 to 1974, he was an attorney advisor and then a senior attorney with the Securities and Exchange Commission, working first in its Division of Enforcement in New York and later in its Division of Corporation Finance in Washington, D.C.

A native of New York City, Mr. Medero holds a B.A. degree from Queens College, Flushing, New York, a J.D. degree with honors from St. John's University School of Law, Jamaica, New York, and an LL.M. degree in corporate and securities law from New York University School of Law, New York City. He is a member of the New York, Kentucky, and District of Columbia bars.

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Dr. George D. Irwin

Associate Deputy Governor and Chief Economist
Office of Administration

Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dr. George D. Irwin serves as chief economic advisor to the Farm Credit Administration. He also provides overall policy direction to the Economic Analysis, Management Information, and Information Processing divisions. His office is responsible for coordinating and conducting current and long-range studies on money-gathering and money-lending functions and on policy issues, for developing agencywide management information in support of supervisory functions, and for developing and operating all electronic information processing services for the agency. He serves as alternate to the Deputy Governor for Administration, is responsible for developing planning processes and information policies, and shares overall management responsibility for the office.

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Prior to joining FCA in late 1975, Dr. Irwin served 13 years with the Economic Research Service (ERS) of the U.S. Department of Agriculture. His work with ERS began in 1961 as a research agricultural economist with the Farm Production Economics Division at Michigan State University. In 1964, he was transferred to an ERS cooperative arrangement with Purdue University's Department of Agricultural Economics. During the 1967-68 year, he was on temporary ERS assignment in Washington, D.C., coordinating an evaluation of the agency's research program in agricultural finance.

In 1972, Dr. Irwin was appointed to head the Southern Field Group, Farm Production Economics Division of ERS headquartered at North Carolina State University in Raleigh. He was named program leader in 1973, with technical responsibility and administrative direction of the ERS program in structure and adjustments in the food and fiber sector.

Dr. Irwin earned a Ph.D. degree in agricultural economics from the University of Illinois and holds an M.S. degree from Iowa State University and a B.S. degree from the University of Illinois. He is the author of numerous agricultural finance research publications. In 1968, he was the recipient of the American Agricultural Economics Association's Outstanding Published Research Award. In 1983, he received the Governor's Award, the highest recognition to an FCA employee.

He is a member of the American Agricultural Economics Association, the American Economic Association, the International Association of Agricultural Economists, and Sigma Xi.

He was raised on a crop farm near Beason, Illinois, and is owner of some land added to that farm, which is now operated by his brothers. Dr. Irwin, his wife, Shiela, and their three sons live in Fairfax, Virginia.

STATEMENT OF

KENNETH J. AUBERGER

ACTING CHAIRMAN of the FARM CREDIT ADMINISTRATION

before the

AGRICULTURE, RURAL DEVELOPMENT, AND

RELATED AGENCIES SUBCOMMITTEE

of the

HOUSE APPROPRIATIONS COMMITTEE

April 23, 1986

Mr. Chairman, implementing the provisions of the Farm Credit Amendments Act (Act) has been the Farm Credit Administration's (FCA's) highest priority since the Act's passage in December 1985. In that legislation, Congress completes the evolution of FCA into its proper role as regulator of the Farm Credit System (System). It gives the FCA enforcement powers that provide a basis to correct unsafe and unsound System banking practices (lessens the degree of System self-regulation that was implicit in the Federal Farm Credit Board) and reassigns direct credit examination of associations to FCA.

The Act also strengthens the System in two ways. First, it creates self-help opportunity for the System through establishment of the Farm Credit System Capital Corporation (Capital Corporation). This Capital Corporation will purchase troubled assets of the System and develop workout plans for them. It will also manage a process of self-help financial assistance among institutions by transferring surplus to those districts in greatest need of capital. Second, the new law gives a carefully restricted Federal "backstop" to the System, and this has restored the System's longer term ability to fund itself in the capital markets.

To understand the environment in which these new relationships and self-help efforts are taking place, my statement will (1) summarize the agricultural outlook for 1986, and (2) review the year-end financial condition and performance of the System. Then, I will highlight FCA actions to implement the Act. Submitted for the record is the FCA's operating budget for FY 1987.

Agricultural Outlook for 1986

In 1985, farmers loan repayment problems created a dramatic increase in farm-business failures, a retrenchment in agricultural lending, and stress among agricultural lending institutions. The prospects for 1986 do not suggest that a turnaround is imminent. Cash-flows for highly leveraged operators will remain tight and further drops in asset values will erode collateral values. Thus, lending institutions will likely see another increase in nonperforming assets, further loan losses, erosion of loss reserves, and depressed earnings. Both farm borrowers and financial institutions themselves will increasingly have to take action to avoid further deterioration of already weakened financial conditions.

Bumper crops, falling exports, low commodity prices, and sliding land values in 1985 have increased the amount of stressed debt in the agricultural sector from the $50 billion projected at the beginning of last year. The adjustment problem is concentrated on perhaps one-third or fewer of the Nation's 2.4 million farms. The two-thirds with no or manageable amounts of debt are affected indirectly by a reduced ability of their communities to finance local services and by a decline in their financial position. Many of them will face favorable opportunities for buying or renting additional land or equipment.

The overall balance sheet of the farming sector again shows significant deterioration. This is influenced by the dominating effect of real estate assets on the totals. Since peaking in 1981, land values by early 1985 had declined by almost 50 percent in Iowa and Nebraska and approximately

40 percent in Ohio, Illinois, Indiana, Minnesota, and Missouri. For 1985, USDA data and Federal Reserve Bank surveys establish that additional drops in land values of 5 to 11 percent nationwide are likely to have occurred, with larger drops again concentrated in the Corn Belt, Northern Plains, and Great Lakes States. In the West, ranchland values recorded the largest declines and nonirrigated lands the second largest declines.

In 1986, a downward revision of long-term income expectations and continued high real cost of debt are forcing land values down to levels that will allow competitive returns. In some areas, economics suggest land values should stabilize. However, a negative factor to contend with is the huge supply of land on the market or awaiting a sales opportunity. On balance, negative forces are likely to dominate through 1986.

It is not clear what the effect of the 1985 Farm Bill will be in altering income expectations and how much the recent drop in oil prices will affect land prices in different parts of the country. We anticipate only modest short-run improvement in export volumes as a result of more competitive U.S. crop prices. Interest rates are still high in real terms, with adverse effects on credit-servicing capacity, as well as on capitalized value of land itself.

Nevertheless, given the moderately supportive farm support program, the overall rate of decline in land values may slow to around 3 to 5 percent in 1986. Farm revenues and production costs are expected to be lower, producing a stable to slightly lower net farm income. Returns on agricultural assets are likely to move upward to about 3 to 4 percent, but stagnating cash-flows will not enable farmers to make large paydowns of liabilities.

Percent Change in Farm Sector Balance Sheet, 1984 to 1986

Item	1984 p	1985 f	1986 f
Assets	-10%	-5.9%	-4%
Debt	-1.4	-1.4	-1
Equity	-12.5	-7.2	-5

p Preliminary
f Forecast

During 1985, total farm debt fell slightly. Reduction of real estate debt through paydowns and writeoffs by lenders was perhaps $5 to $7 billion. At the same time, nonreal estate debt grew because of heavy reliance on the CCC loan programs. The large 1985 feed-grain production enabled some Corn Belt farmers enrolled in the commodity programs to pay down some of their debt. The rest of the 1985 decline represented writedowns of loan losses by lenders. Total net worth in the agricultural sector at the end of 1985 was approximately $600 billion (excluding farm households). A similar course of action is expected this year, but with a more moderate reduction in total farm debt. The asset declines seen for 1986 will be greater than the drop in debt; thus, farm equity will be reduced once more.

Despite some serious deterioration over the past several years, the aggregate balance sheet of the agricultural sector is still fairly healthy. However, this aggregate combines balance sheets of both operators and landlords. Generally, landlords are believed to be in sounder financial condition than operators because the landlord debt is less concentrated and less dependent on farm earnings for repayment.

USDA surveys document the concentration of farm debt in the hands of large operators. Among commercial-sized operations with annual farm sales over $40,000, some 634,000 operators held $99.1 billion in farm debt and $372 billion in assets at the beginning of 1985. Of these, just under 200,000 with $63.3 billion of debt had debt-to-asset ratios over 40 percent. Despite their debt load, 70,000 of these managed to have a positive cash-flow. Thus, 130,000 commercial-sized operators with 40 percent or more debt-to-asset ratios had a negative cash-flow. The farmers in this category owed $46.5 billion and had $65.3 billion in assets; clearly, these operators are in serious financial difficulty. They represented 20 percent of commercial farm operators and held 47 percent of the debt and 19 percent of the assets. During 1985, those who participated in the farm programs and had high yields probably maintained strong cash-flows. Those who did not experienced reduced cash-flows and increasing debt load.

Effect on Agricultural Lenders

As of January 1985, the proportion of agricultural loans associated with highly stressed borrowers was about the same for production credit associations (PCAs) as it was for commercial banks. In addition, preliminary data for 1985 show that PCA chargeoffs were similar to commercial bank chargeoffs as well. However, the System had a larger average outstanding loan per borrower than did commercial banks. This difference traces directly to loan activity to part-time farmers.

Commercial banks served almost twice as many operators having sales below $40,000 than did System institutions. Were it not for the higher proportion of loans to smaller operators who tend to be in better financial condition, the farm loan portfolio of commercial banks would have been in somewhat worse shape than that of the System. For example, for agricultural operators having $250,000 or more in sales, about 70 percent of commercial bank loans are to borrowers with debt-to-asset ratios over 40 percent, while the corresponding figure for System institutions is 57 percent.

Condition and Performance of the System

Deterioration of the agricultural economy since 1981 has led to severe financial stress on farmers and agricultural lenders. The levels of actual and projected losses of the System reached the point last year of jeopardizing investor and borrower confidence in the System's safety and soundness. As the System's financial problems became known, interest rates on System securities ballooned to over 100 basis points over equivalent Treasury securities. More importantly, investors showed a strong preference for short-term System securities.

Last fall, FCA recommended a three-point program for dealing with the financial problems of the System: (1) pool the System's own resources; (2) enhance FCA's examination and enforcement authorities; and (3) establish a "backstop" to the System to ensure its ability to fund itself in the capital markets.

Swift action by Congress and the Administration resulted in enactment of the Farm Credit Amendments Act, which restored investor confidence in System securities. Interest spreads over comparable Treasury bonds dropped approximately 50 basis points within 3 weeks of passage.

System loan losses continued to mount during 1985, as the amount of land price drops could no longer be absorbed within borrowers' equity positions. With this cushion gone, further losses were transmitted directly into lender accounts. Large provisions for loan losses, required to reflect System institutions' risk exposure, resulted in net operating losses for all of 1985, totaling $2.689 billion on a combined basis.

Very large operating losses reported in the fourth quarter reflected both the increasing rate of loss and catchup on deterioration that occurred in previous quarters. The precipitous drop in land values and reduced repayment capacity during 1984 and 1985, however, accounts for the bulk of the devaluation of the loan portfolio. The devaluation must be made as soon as losses can be estimated, often well before actual chargeoff occurs. Thus, the allowance for losses account is in place to handle future chargeoffs.

The System's total loan portfolio continued to contract at record rates in 1985. As of December 31, 1985, total System outstanding loans were $69.8 billion on a combined basis, compared to $79.8 billion on December 31, 1984. The peak level of $81.9 billion was reached on December 31, 1983. Leading the decline were the PCAs and the Federal land banks (FLBs), as both lenders witnessed continued stress and declining volume.

Retrenchment in the size of the System's loan portfolio reflects the desire of many producers to paydown their total debt in an attempt to improve their equity positions, and is therefore a phenomenon being experienced by most commercial agricultural lenders. However, the System's loan volume is shrinking at a faster rate because of increased interest rate competition from some commercial banks, large increases in Farmers Home Administration operating lending, and favorable CCC interest rates. The paydown situation also slows the rate at which new lower cost money is blended into System funding costs, lengthening the lag between drops in current bond rates and drops in rates to System borrowers.

In addition, the System continues to exhibit stress in other dimensions of its financial performance. Loan chargeoffs in 1985 were $1.043 billion on a combined basis, more than double the $428.1 million reported for all of 1984.

The System had a combined total of nearly $9.4 billion in nonperforming loans as of December 31, 1985, of which $5.3 billion was in a nonaccrual status. Financial reports suggest future loan losses aggregating $3.2 billion or more are inherent in the System's loan portfolio. As a result, the banks have been reserving earnings for loan losses in accordance with Generally Accepted Accounting Principles (GAAP).

Federal Land Banks

Within the System, the FLBs experienced a rapid decline in loans in the past 2 years. In 1985, total loans outstanding dropped. As of year-end 1985, outstanding loan levels were $47.5 billion, $4.9 billion (9.3 percent) below 1984 yearend levels, with 11 of the 12 districts reporting declines in outstanding loans.

Nonperforming FLB loans totaled $7.4 billion on December 31, and the potential for significant future losses had a severely detrimental effect on their financial performance. In 1985, the FLBs experienced net operating losses of $2.077 billion after provisions for losses totaling $2.074 billion. Net chargeoffs by the FLBs totaled $460.3 million, compared to $90.4 million for all of 1984.

Federal Intermediate Credit Banks

Federal intermediate credit bank (FICB) performance is directly affected by the performance of the PCAs. As the PCA loan volume rapidly declined in 1985, the FICBs experienced a similar decline in lending activity. FICB loans to PCAs declined 19.6 percent to $12.9 billion on December 31, down from $16.1 billion on December 31, 1984. FICB lending to other financing institutions dropped 38.7 percent to $536.9 million on December 31.

FICBs reported a net operating loss of $89.3 million for 1985. Of the $5.063 billion of nonperforming loans, $193.1 million was in a nonaccrual status. FICBs reported loan losses of $38.6 million during 1985 and combined allowances for loan losses were $144.9 million at yearend.

Production Credit Associations

PCA loan volume declined substantially in 1985, contracting $3.973 billion to $14.41 billion, a 21.6-percent decline. Loan chargeoffs during this time accounted for about 12 percent of the $3.973-billion reduction. Net PCA chargeoffs were $479.6 million, compared to $285.9 million for calendar year 1984.

PCAs reported $2.315 billion in loans in a nonperforming status of which $943 million was in a nonaccrual status. The PCAs reported net operating losses of $678.3 million for 1985 after making provisions for loan losses totaling $774.6 million.

The probability of continued losses and declining loan volume for the PCAs remains high in 1986.

Banks for Cooperatives

Banks for cooperatives (BCs) also had a significant drop in loan volume for 1985. Volume dropped 10.1 percent to $8.1 billion at yearend from $9.0 billion on December 31, 1984. Nevertheless, BCs remained in relatively sound financial health in 1985. Net earnings of $66.3 million were posted and chargeoffs were only $13.8 million. Provisions for losses were $24.4 million. Nonperforming BC loans were $469.4 million or 5.8 percent of loans outstanding at December 31. As of yearend 1985, $131.1 million of the BC loan portfolio was in a nonaccrual status.

The sharp decline in System loan volume plus adverse publicity on the financial health of the System contributed to a $3.1-billion paydown of total System debt in 1985. For the third consecutive year, a larger volume of System bonds matured than were issued in new obligations resulting in the level of outstanding bonds to contract by $9.0 billion by December 31, 1985.

Financial market concern over the future of the System and its securities caused the cancellation of three 9-month pricings and two term pricings in the latter part of 1985. As a result, the System was faced with a shorter maturity of its bond portfolio and was relying heavily on the discount note market as a source of funding. By mid-December 1985, discount notes outstanding totaled $10.8 billion, more than double the $5.2 billion outstanding at the beginning of 1985.

Subsequent to the passage of the Act, System discount note levels stabilized at around $10.5 to $10.8 billion and a continuing paydown of System securities has resulted in much greater liquidity.

Despite the increased spreads over comparable Treasury securities during the latter months of 1985, the average cost of the FLB bond portfolio declined 45 basis points. Term bonds with an average interest rate of 12.3 percent were retired in the amount of $7.8 billion and were replaced with lower priced short-term bonds and discount notes. The average maturity of the FLB securities slipped from 3.3 years at the beginning of the year to 2.9 years in December 1985. The FLBs could have an opportunity to further lower their average cost of funds in 1986 as another $8.9 billion in term bonds mature with a weighted average cost of 12.75 percent.

The FICBs had the greatest reduction in funding costs of the System banks, with portfolio costs decreasing 166 basis points to 9.5 percent. Bonds outstanding decreased from $16.0 billion to $10.9 billion, but discount notes outstanding increased by $2.5 billion. The average maturity of FICB bonds remained constant at 1.07 years.

The BCs paid down their short-term debt at a much faster rate than their term holdings and, as a result, increased the average maturity of their portfolio from 2.1 years to 2.4 years. Average bond costs declined more slowly than for the FICBs, from 11.3 percent to 10.5 percent.

FCA Actions to Implement the Act

FCA was mandated under the Farm Credit Amendments Act of 1985 to take a more regulatory approach using added enforcement powers; to assume responsibility for direct examination of associations as well as banks; to charter a capital corporation with responsibility to work out nonperforming assets and manage use of System self-help resources; to ensure greater consideration of borrower and stockholder rights; and to focus on stabilizing the entire System in order to minimize the possibility of triggering a request for Federal financial assistance.

FCA is rapidly implementing the Amendments. In addition, FCA is updating and continuing activities underway to change prior approval requirements and is considering general revisions to its regulatory approach and the structure of its Regulations. FCA is extremely concerned, however, about the effect of Gramm-Rudman-Hollings on its ability to perform its role as a financial regulator.

Highest priority is being given to implementing the self-help and borrower rights provisions and implementing the new FCA enforcement authorities. These provisions directly affect institutions and individuals as borrowers or stockholders.

Shortly after enactment, FCA recognized the potential for some System institutions to dissipate financial resources before self-help provisions become effective. Therefore, on February 14, FCA invoked its new authorities and directed all System institutions to conserve their financial resources so they would be able to marshal those resources to help manage their current financial difficulty.

This directive is a temporary measure until the Act is fully implemented. It prohibits System institutions from taking a number of actions including:

(1) extraordinary operating and capital expenditures within the control of management or boards of directors in excess of $250,000;

(2) major changes that increase the cost of employee benefit and pension plans or major changes in depreciation procedures;

(3) repurchase of unmatured debt instruments;

(4) payment of an interest rate on member funds held by a district bank in an amount that exceeds the member's loan rate; and

(5) charging an interest rate by any PCA that is less than it is paying for money from the FICB.

On the same date, FCA directed all System institutions to follow the intent of the law pertaining to the rights of applicants and announced new regulations dealing with financial disclosure.

The law clearly describes the information to which borrowers are entitled. It is equally clear with regard to actions on loan applications. FCA notified all System institutions that it expected them to abide by these legal requirements even before implementing regulations are final.

It has long been the objective of FCA to require full financial disclosure by System institutions. Final regulations in this area ensure that stockholders and investors receive the financial and operational data needed to make informed decisions. Certified financial audits by public accountants, as well as disclosure of significant actions and activities that materially affect the business operations of System institutions are required.

By mid-April, virtually all necessary regulations regarding borrower rights, FCA enforcement authorities, self-help, and operations of the Capital Corporation were issued in either final or proposed form.

Specifically, FCA has taken the following actions:

(1) Issued a Federal charter establishing a new Capital Corporation (February 24);

(2) Established election procedures to expedite selection of System representatives on the Capital Corporation's board (March 10);

(3) Established the basic powers of the Capital Corporation, provided for its initial capitalization, subjected it to the same accounting and financial reporting required of other System institutions, and set

standards and procedures under which System institutions may be eligible for financial assistance (March 10);

(4) In the near future, FCA will submit proposed regulations to the House and Senate Agriculture Committees to establish requirements for System institutions to purchase stock or pay assessments to the Capital Corporation and set forth capital adequacy requirements of banks and associations;

(5) Submitted proposed regulations to the House and Senate Agriculture Committees to establish requirements for independently audited financial statements and financial disclosure in accordance with GAAP (published as final regulations on March 13);

(6) Submitted proposed regulations to the House and Senate Agriculture Committees requiring forbearance policies for System institutions, and borrower access to documents, reconsideration and review of loan applications, and notice prior to System institutions applying their outstanding stock against balances of loans in default (March 17);

(7) Submitted proposed regulations to the House and Senate Agriculture Committees regarding FCA's enforcement authorities, liquidations, and conservatorships (March 17);

(8) Announced FCA's two appointees to the board of the Capital Corporation and called the first meeting of this board for April 11 (April 10).

To meet FCA's additional examination and regulatory responsibilities, a supplemental appropriation was included in the continuing resolution (H.J. Res. 465, P.L. 99-198) providing for additional FCA examiners and other resources. To effectively examine all associations, regional offices must be established and 274 additional examiners must be hired and trained over a 2-year transition period.

FCA receives no appropriated funds, but rather assesses the institutions of the System for its operating expenses subject to limits set by Congress in appropriations acts. Provisions of the Farm Credit Act of 1971, as amended, require that any unspent funds be rebated to the System in the form of reduced assessment for the coming year.

Mr. Chairman, in summary, 1986 will be another very difficult year for many American farmers. There are 130,000 sizable farm operations with debt-to-asset ratios over 40 percent and negative cash-flows. The $46.5 billion owed by these farmers is creating severe stress. The result will be continued large loan losses for the System, which is a major source of credit to these farmers, and continued increases in reserves for losses resulting in large negative net earnings. Thus, there will be continued pressure to keep interest rates up on performing loans. Despite this, the System will use more of its financial resources to meet loan losses during 1986, while at the same time experiencing reduced loan volume. System institutions and many of the farmers they serve are caught in an economic vice. The adjustment and restructuring in agriculture are inevitable, and FCA is seeking to ensure that the System's resources are used wisely, thus enabling the System to survive as a reliable source of credit for American agriculture.

The FCA is making every effort to regulate and examine the System effectively and is moving aggressively to implement the Farm Credit Amendments Act. We are carrying out stronger, more direct examination, and at the same time we are expecting the System to have full responsibility and accountability for the management of its operations. The intent of the Act and of the FCA is to ensure that adequate credit will continue to be available to creditworthy farmers, ranchers, producers and harvesters of aquatic products, and agricultural cooperatives.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer any questions the committee may have.

APPENDIX

Farm Credit Administration Budget

PURPOSE STATEMENT

The Farm Credit Administration is the independent Federal Agency responsible for the regulation, supervision, and examination of the borrower-owned banks and associations that comprise the cooperative Farm Credit System.

The Farm Credit Administration was established as an independent agency by Executive Order No. 6084, effective May 27, 1933. On July 1, 1939, the Farm Credit Administration was transferred to the Department of Agriculture, where it remained until the Farm Credit Act of 1953 reestablished it as an independent agency under the direction of the Federal Farm Credit Board. The statutory authorities of the agency were consolidated in the Farm Credit Act of 1971, Public Law 92-181. On December 23, 1985, that Act was substantially amended by the Farm Credit Amendments Act of 1985, Public Law 99-205, which, among other things, restructured the agency by eliminating the Federal Farm Credit Board and substituting a new three-member board designated as the Farm Credit Administration Board.

The Farm Credit Act of 1971, as amended, provides "for the farmer-owned cooperative system to make credit available to farmers and ranchers, for rural residences, and to cooperatives and other borrowers for farm-related businesses upon which farming operations are dependent, to provide for an adequate and flexible flow of money into rural areas, and to modernize and to consolidate existing farm credit law to meet current and rural credit needs."

On September 30, 1985, the Farm Credit Administration had 272 full-time permanent employees, 66 of whom were located in offices outside the Washington, DC, area. All expenses of the activities and personnel of the Farm Credit Administration are paid by assessments collected from the banks of the Farm Credit System.

ASSESSMENTS FOR OPERATING EXPENSES

Assessments based on estimated expenditures are collected from the Farm Credit System banks and are available for administrative expenses of the Farm Credit Administration. Obligations are incurred within fiscal-year budgets approved by the Farm Credit Administration Board.

CAPITAL CORPORATION INVESTMENT FUND

Section 4.0 of Public Law 99-205 directs that the Banks for Cooperatives Investment Fund and the Short Term Capital Investment Fund be merged and be available to the Farm Credit Administration for purchase on behalf of the United States of capital stock of the Farm Credit System Capital Corporation. The Farm Credit Administration may make such purchases of stock on a discretionary basis to achieve the purposes of the Act.

Administrative Expenses
$ Thousands

Approved by the Federal Farm Credit Board* and funded by assessments against earnings of the Farm Credit System banks.

	1987	1986
Budget estimate	$39,420	$30,724
Reduction pursuant to P.L. 99-177	3,154	1,321
	$36,266	$29,403
Estimated reduction rate P.L. 99-177	8%	4.3%

Increase

The increase of $8,696 for 1987 over 1986 is primarily attributable to the addition of 149 full time permanent positions to implement the additional examination and supervisory functions authorized by Public Law 99-205.

Program
$ Thousands

	1985 actual	1986 revised estimate	1987 estimate	Change 1986 to 1987
Supervision and examination of Farm Credit banks and associations	$ 19,835	$ 30,724	$ 39,420	$ 8,696
Unobligated balance	827			
Budget total	$ 20,662	$ 30,724	$ 39,420	$ 8,696

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* The Federal Farm Credit Board has been replaced by a new three-member board, the Farm Credit Administration Board. (Public Law 99-205).

FARM CREDIT ADMINISTRATION EXPENSES

Year	FCA Expenses ($ Amount)	Percentage Increases in FCA Expenses	FCA Expenses as a Percent of Loans Outstanding	FCA Expenses as a Percent of Loans Made
1980	11,288,000	+ 7.0	.017	.017
1981	12,796,000	+13.4	.017	.017
1982	14,861,000	+16.1	.018	.022
1983	17,356,000	+16.8	.021	.027
1984	19,646,000	+13.2	.025	.030
1985	19,835,000	+01.0	.027	.029

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